

**CRANFIELD UNIVERISTY**

**FU JIA**

**CULTURAL ADAPTATION BETWEEN WESTERN BUYERS AND  
CHINESE SUPPLIERS**

**SCHOOL OF MANAGEMENT**

**PHD THESIS**

**Academic year: 2008-09**

**Supervisor: Dr. Christine Rutherford**



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## ABSTRACT

There are undoubtedly multiple factors that may contribute to the failure of a relationship, such as product quality or supplier reliability; however, when Western buyers source from China and attempt to build partnerships with Chinese suppliers, it is highly likely that they and their Chinese partners will encounter relational difficulties rooted in cultural differences between China and the West. Cultural adaptation is proposed as a solution to this problem; however the process of how each partner in a China-West partnership adapts to each other over time is not clear. Furthermore, the causal relationship between cultural adaptation and the mutual benefits of partnership has not previously been tested, nor have the contextual factors influencing the cultural adaptation process been identified.

A multiple case study method was selected to answer three research questions developed from the three gaps identified above. Four China-US/UK cross cultural partnerships were selected for case analysis, which involved the retrospective evaluation of how both parties in each partnership adapt. The main instrument of data collection was the semi-structured interview supplemented with questionnaires and observations.

The research concludes that as a result of cultural adaptation by both parties, a hybrid culture forms at the interface between Western buyers and their Chinese suppliers and is a combination of Guanxi and Western rules and procedures. Organizations as a whole do not adapt culturally, but rather those individuals working closely with each other at the interface of the two organizations including those working for Western buyer IPOs (International Purchasing Offices) in China and those who are top or middle level management in the Chinese suppliers. Two emerging contextual variables including the ownership of Chinese suppliers and the structure of IPOs have been identified from cross case analysis. The research also concludes that the higher the level of cultural adaptation the greater the mutual benefits perceived by both parties of the relationship.



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*Fu Jia  
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## **Acronym used in this thesis**

CS-A	Chinese Supplier A
CS-B	Chinese Supplier B
CS-C	Chinese Supplier C
CS-D	Chinese Supplier D
CST	China Sourcing Team
GM	General Manager
GR	Guanxi relationship building process
IPO	International Purchasing Office
LRN	Logistics Research Network
OP	Operational Personnel
MM	Middle Management
MOU	Memorandum of Understanding
NA	No Adaptation
PCE	Private Chinese Enterprise
SCL	Supply Chain Learning
SOE	State-owned Enterprise
SQE	Supply Quality Engineer
TM	Top Management
WB-A	Western Buyer A
WB-B	Western Buyer B
WB-C	Western Buyer C
WB-D	Western Buyer D
WR	Western relationship building process
WTO	World Trade Organization



# Chapter 1 : Introduction

## 1.1 Research Rationale

In October 2001, China became a member of the World Trade Organization (WTO). This indicated that China's economic development had been recognized and her economic influence on the world could not be ignored. Over the last two decades, China has become the world's leading manufacturing centre. All kinds of goods are made in China; from shoes, clothes, toys, and electrical items to Jili cars recently marketed in the US.

The sourcing of products from across the global marketplace is an increasing trend associated with economic development. This trend is the result of many independent decisions taken by firms around the world looking for new sources of competitive advantage. However, these decisions can have unintended consequences, exposing firms and their supply chains to hidden costs and new, perhaps unforeseen problems (Christopher et al., 2002; Christopher et al., 2007). One such problem is believed to arise from the inappropriate management of the buyer-supplier relationship in an international context.

There are undoubtedly multiple factors that may contribute to the failure of an international relationship, such as product quality or supplier reliability; however, when Western buyers source from China and attempt to build partnerships with Chinese suppliers, it is highly likely that the players will encounter relational difficulties rooted in cultural differences.

Chinese culture has been developing slowly but it has distinctive features. It was during the Spring and Autumn Period in the Chinese history (770-476 B.C.) when the first Chinese organized philosophical thought came into being. There were three main schools of philosophy in China: Taoism, Confucianism, which originated and separated from Taoism, and Buddhism (imported from India originally and adapted to its Chinese form gradually). Most Chinese especially the educated and ancient hold a practical approach toward religion meaning that they normally adopt a mixture of the three major religions (Ge, 2006). In the old days, before the People's Republic of China was founded, if a person was educated at all, the first education he or she received was in Chinese philosophy. When children went to school, the *Four Books*, which consist of the Confucian Analects, the *Book of Mencius*, the *Great Learning*, and the *Doctrine of the Mean*, were the first ones they were taught to read and recite (Fung and Bodde, 1948).

The family system was the social system of China. In the *Erh Ya*, the oldest dictionary of the Chinese language, dating back before the Christian era, there are more than one hundred terms for various family relationships, most of which have no equivalent in the English language (Fung and Bodde, 1948). A great part of Confucianism is the rational justification of this social system or its theoretical expression (Fung and Bodde, 1948). The Chinese are mainly responsible for their families, not society, so they do not care much about laws, rules and contracts. The family here means the extended family including people with the same surnames and the mother's family too. Confucianism

also requires a broad commitment to a harmonious operation and welfare of a society (Luo, 1997).

However in the West, Western cultures are not homogeneous and there is wide variation between national cultures in the West. An Anglo-Saxon focus is taken in this research. This is ensured by selecting those Western participating firms having UK/US subsidiaries. Pirie (2007) claims that the Anglo-Saxon model of capitalism incorporates two philosophical stands, which run deep within Anglo-Saxon culture.

The first of these two stands is the adversarial principle. Central to the British philosophical style has been the notion of conflict. The adversarial principle underlies British philosophy of science, in which the rival theories are brought in the ritual combat of scientific experiment. The adversarial principle lies behind British model of capitalism. It is essentially competitive. It is foreign to Anglo-Saxon model to suppose that a whole people will best improve their economy and generate wealth by working together collectively for the common good. They instead compete against each other for the good of themselves (Pirie, 2007).

The second of the two great principles which underlies Anglo-Saxon philosophy is the evolutionary principle. It is a theory of change. The theory says that change is not best accomplished by sudden and violent disruptions which overthrow the status quo, but by a process which allows continual modifications to be made and incorporated. This requires a system of tolerant enough to admit variation and change, and flexible enough to weave those changes into the thread of current practice (Pirie, 2007).

Anglo-Saxon economy or capitalism is often practiced in English-speaking countries such as United Kingdom, the Republic of Ireland, the United States, Canada, New Zealand and Australia. It is represented by levels of regulation and taxes are low, and government provides relatively fewer services. Anglo-Saxon economies generally are more liberal and free market oriented than other capitalist economies in the world. Countries in mainland Europe possess a macroeconomic model called continental capitalism. Generally speaking, more liberal economies produce greater overall prosperity while the continental models have lower growth, and a lower average standard of living, but less poverty at the lowest margins (Delahoyde, 2007).

It can be seen that there are significant differences between Chinese and Western culture especially Anglo-Saxon culture. One of the most significant differences is that Chinese culture emphasizes harmony of society whereas Anglo-Saxon culture stresses the adversarial principle. The focus of this doctoral research explores how both parties of a Western buyer and its Chinese supplier adapt to each other in terms of the differences between Chinese and Western cultures, and the relationship between the adaptation and any mutual benefits achieved.

The focus of this introductory chapter is to lay a foundation for the main body of this thesis by providing the background knowledge necessary to contextualise the study and a route map of this thesis.

## **1.2 Underpinning Literature**

### **1.2.1 Cultural Behavioural Differences**

Hofstede (1991) claims that the sources of an individual's mental programs lie within the social environments in which the individual grew up and collected their life experiences. A customary term for such "software of the mind" is culture. Hill (1997) defines national culture as a system of shared norms, values, and priorities that taken together constitute a design for living for people. He continues to state that value means abstract ideas about a group believes to be good, right and desirable; norms mean the social rules and guidelines that prescribe appropriate behaviour in particular situation. According to them, individual managers' decision is shaped by their cultural values and norms rooted in the culture in which they grow up.

Schein (1992) builds up a model of culture, which represents culture at three levels: 1) behaviours and artefacts; 2) beliefs and values; 3) underlying assumptions. These three levels are arranged according to their visibility such that behaviours and artefacts are the easiest to observe, while the underlying assumptions need to be inferred. One of the assumptions of this thesis is that cultural behaviours and artefacts can be adapted or changed but it does not necessarily mean that cultural beliefs, values and underlying assumptions will also be changed.

In this study, Guanxi is considered a proxy of Chinese cultural behaviour because it is one of the major dynamics in the Chinese society where business behavior revolves around Guanxi. Any business in this society, including both local firms and foreign businesses, inevitably face Guanxi dynamics (Luo, 1997). Guanxi is defined as a special type of relationship that bonds the exchange parties through reciprocal exchange of favors and mutual obligations (Lee et al., 2001:52).

Guanxi is a Chinese approach of relationship management applicable to both commercial and personal relationships and is, in many aspects, analogous to the concept of Western concept of supply management (Lee and Humphreys, 2006). Another reason why Guanxi is used to represent Chinese cultural behaviour is because the focus of this thesis is the buyer-supplier relationship.

In this study, supply relationship management in the West is considered a proxy of Western cultural behaviours since in the English academic literature supply management has been studied under the Western context except for otherwise stated. Hence the cultural behavioral differences are represented by the differences between Guanxi and Western supply relationship management.

### **1.2.2 Cultural Adaptation and Inter-firm Learning**

Cultural adaptation is proposed as a mitigating strategy against the problem caused by cultural behavioural differences (Boisot and Child, 1999; Lin and Germain, 1999). Francis (1991) suggests that cultural adaptation takes place between culturally different individuals and defines cultural adaptation as "*an attempt to elicit approval from members of a foreign culture by attempting to become behaviourally more similar to*

*members of that culture.*” Lin and Germain (1999) also argue that cultural adaptation in a dyadic relationship involves adjustment by individual members of both cultures.

International organizational learning literature provides some insights into cross-cultural inter-firm relationships. Liu and Vince (1999) found that learning in an intercultural context requires sensitivity to differences in cultural values and that learning is a two-way process involving learning and change from both partners rather than one partner imposing knowledge on the other.

From a supply chain level, Bessant et al. (2003) first proposed the concept of Supply Chain Learning (SCL), which refers to learning behaviours in an inter-firm context. Spekman et al. (2002) argue that supply chains are a vehicle for gathering knowledge and learning, and learning in an inter-firm context is affected by factors that are relationship specific such as the type of relationship formed and its stage of development. Extending international organizational learning to a supply chain level, international inter-firm learning might be appropriate to represent the learning between Western buyers and their Chinese suppliers.

International inter-firm learning assumes many similarities with cultural adaptation. First the context for both is international. Second both emphasize changes of behaviours. Third both stress that the change process is two-way rather than one-way. Therefore in the context of this research, cultural adaptation can be considered a form of international inter-firm learning.

### **1.2.3 Relationship between Cultural Differences, Cultural Adaptation and Partnership Performance**

Monczka et al. (1998) claim that cultural differences do not impact supply chain performance directly, but indirectly by way of other intermediate proxies such as trust, intensity of communication and commitment between supply chain partners. Some other authors argue that cultural distance between supply chain partners negatively influences the building of mutual trust, which will subsequently impede long-term coordination (Sirmon and Lane, 2004; Smagalla, 2004). Hence the cultural differences between China and the West should be considered as a potential or existing problem to Western buyer-Chinese supplier relationships.

Linking cultural adaptation to performance, most of the authors studying adaptation imply that adaptation including cultural adaptation has positive impact on the partnership performance however it has not been empirically tested so far. For example, Newman and Nollen (1996) argue that the competitive advantage derived from correctly adapted management practices comes from alignment between key characteristics of national culture and internal strategy, structure, systems and practices. The congruence between management practices and the characteristics of national culture produce better performance outcomes. Therefore it is concluded that cultural adaptation generates benefits to cross cultural relationships.

### **1.3 Thesis Route Map**

The thesis route map can be decomposed into three elements. The first is a research agenda, which provides a description of the problem under study. The second is a description of the contribution to knowledge that the study seeks to make. The third and final element provides an overview of the structure of the thesis.

#### **1.3.1 The Research Agenda**

A review of the literature on cultural behavioural difference and cultural adaptation/international inter-firm learning revealed that the cultural behavioural differences between Western supply relationship management and Guanxi are a problem to international buyer-supplier relationships. Although cultural adaptation is proposed as mitigating strategy against this problem, the literature is not clear on what the process of cultural adaptation is. As Spekman et al. (1998) claim that a lot of attention has been paid to studying the concept of strategic alliances formation itself, however the practice of management is understudied. Few authors (Boisot and Child, 1999; Salmi, 2006) touch on the adaptation process between Western buyers and their Chinese suppliers.

The research agenda for this thesis is to explore the cultural adaptation process between Western buyers and their suppliers as well as the relationship between the cultural adaptation process and the resultant partnership performance and mutual benefits.

#### **1.3.2 Expected Contribution of the Research**

This thesis aims to contribute to theory in twofold. First it aims to build a theory on how both parties of a Western buyer-Chinese supplier partnership adapt to each other. Hence it aims to contribute to the knowledge in supply relationship management.

The positive relationship between cultural adaptation and mutual benefits obtained by partnerships has rarely been tested empirically. This thesis also aims to test the proposition that cultural adaptation generates mutual benefits for both parties of a relationship. This aims to contribute to the supply chain learning literature by linking inter-firm learning to partnership performance. The factors that influence the cultural adaptation process will also be identified.

### 1.3.3 Structure of the Thesis

The structure of the thesis is shown in Figure 1-1.

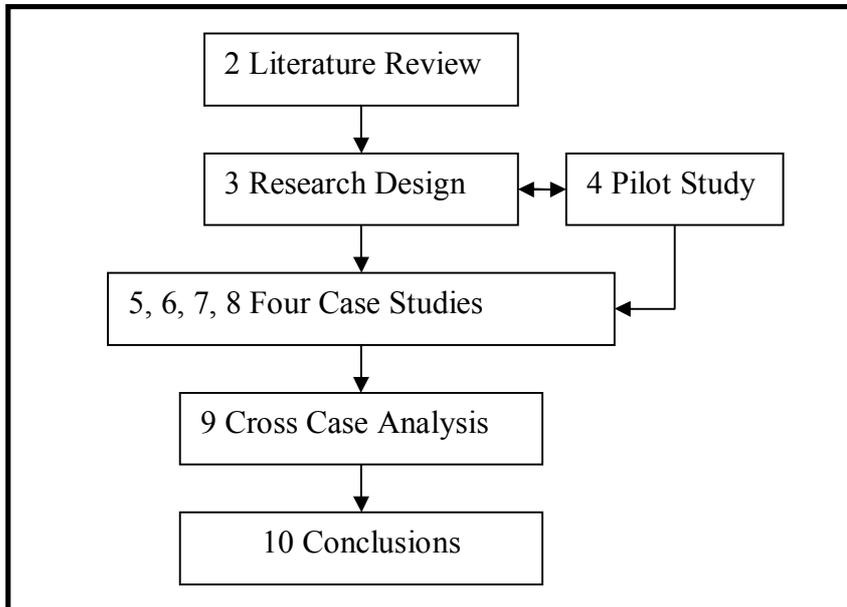


Figure 1–1: Thesis Structure

Following the introductory chapter, Chapter 2 focuses directly on the existing literature on cultural behavioural differences and cultural adaptation with the aim of identifying gaps in the literature. Mutual benefits will also be identified from literature. Based on the gaps in the literature, research questions and an initial conceptual framework have been developed. Chapter 3 begins with a discussion of the author’s ontological perspective, which aligns with the case study research methodology employed in this research. Then the discussion moves on to detailed design of the research. Chapter 4 presents the pilot study performed during summer 2007, which inform and is informed by the research design representing two complete circles of iterative research process. Chapter 5, 6, 7, and 8 are within case analysis for the four case studies. The results of the four cases are then compared in Chapter 9-cross case analysis. The thesis ends with Chapter 10, which discusses the implication and contribution of the research as well as future research directions.

## **Chapter 2 : Literature Review**

### **2.1 Introduction**

The aim of this chapter is to develop research questions and a theoretical framework of cultural adaptation based on the gaps identified in the literature. Cultural behavioural differences are explained in section 2.2 by comparing Guanxi and Western forms of supply relationship management. In section 2.3, the cultural differences' impact on buyer-supplier relationship is discussed. Then cultural adaptation is proposed as a solution to the problem caused by cultural behavioural differences in section 2.4. Section 2.5 explores the benefits gained as a consequence of cultural adaptation. Based on the literature review, research gaps are identified, research questions and a conceptual framework developed in section 2.6. Section 2.7 summarizes the chapter.

### **2.2 Cultural Behavioural Differences**

In the previous chapter, it was argued that Guanxi is considered as a proxy for Chinese culture and that Western supply relationship management a proxy of Western culture. Therefore the cultural behavioural differences are represented by the differences between Guanxi and Western forms of supply relationship management.

The author presents a discussion on the link between Guanxi and supply relationship management, which represent cultural behavioural differences. This is to compare the constructs of each Western form of supply relationship management with their Chinese counterpart, constructs of Guanxi.

In the following, first the ill-defined term “Western culture” and Anglo-Saxon branch of Western culture are defined (Section 2.2.1). Then constructs of Western forms of supply relationship management are identified and those of Guanxi (Sections 2.2.2 and 2.2.3). The constructs of both are subsequently compared (Section 2.2.4).

#### **2.2.1 Western Culture and Anglo-Saxon Branch of Western Culture**

Authors in supply chain management literature tend to use the term “Western firms” (Salmi, 2006; Ellram, 1991; Womack and Jones, 2003) however, this term is ill defined. This is because there is variation in terms of cultural values among Western countries (Bond, 1996). Further investigation of this term reveals that researches are normally based on firms in one Western country. For example, the study by Christopher and Peck (2004) is based on Western firms headquartered in the UK i.e. British companies.

The Western world, also known as the West, is a term that can have multiple meanings depending on its context (Stearns, 2003). The consensus is that the West originated with ancient Greece and ancient Rome. The concept of Western culture is generally linked to the classical definition of the ‘Western world’, which is the set of literary, scientific, political, artistic and philosophical principles which set it apart from other civilizations (Duran, 1995). The term has applied to countries whose history is strongly marked by Western European immigration or settlement, such as America, Australia and New

Zealand but not restricted to Western Europe, while central Europe is also regarded as an original constituent of Western culture (Thompson and Hickey, 2002).

After reviewing various studies on Chinese value survey, Bond (1996) claims that various studies reveal considerable variation among so-called Western nations, with similarity confined to the broad value of individualism. However, he argues that the people of the United States cannot stand as representatives of a Western position any more than the citizens of other Western countries.

Joerges et al. (2005) state that two major types of capitalism or economies exist within the Western world. Most countries in continental Europe, such as France, Italy and Germany, employ a macroeconomic model named continental capitalism (Joerges et al., 2005). The other type is Anglo-Saxon capitalism or economy, which refers to a particular culture which strongly features capitalism and Protestantism and is practised in English-speaking countries such as the United Kingdom, the United States, Canada, New Zealand, Australia and the Republic of Ireland (Mitchell et al., 2006). Anglo-Saxon capitalism is more liberal and free market oriented than continental capitalism and a capitalist macroeconomic model in which levels of regulation and taxes are low and government provides relatively few services (Mitchell et al., 2006).

There is a debate among economists as to which economic model is better. Generally speaking, they argue that more liberated economies produce greater overall prosperity, while defenders of continental models claim that they produce less inequality and poverty at the lowest margin (Richter and Fuchs, 2003; Schifferes, 2005).

An Anglo-Saxon focus is taken because the fact that I have stayed and been trained in the UK makes it a logical choice. Second, the literature reviewed was mainly in English. The concept of Guanxi was also reviewed in Chinese literature but not as many findings were obtained as in the English literature. Much of the research on Western forms of supply relationship management published in the English language literature is based on companies headquartered or operating in the UK or US, indicating a strong Anglo-Saxon focus.

Pirie (2007) claims that the Anglo-Saxon model of capitalism incorporates two philosophical strands, which run deep within Anglo-Saxon culture: the adversarial principle and the evolutionary principle, both of which are explained in the previous chapter (section 1.1).

### **2.2.2 Western Forms of Supply Relationship Management**

In this section, a general discussion of the supply chain relationship management is first presented leading to a trichotomy of relational governance in the supply chain (Section 2.2.2.1). Then the three perspectives on relational governance are then subsequently reviewed and constructs of Western forms of supply relationship management are identified.

### 2.2.2.1 Supply Chain Relationship Management

Christopher et al. (2002) argue that competition has shifted from single firm based to supply network. What makes the supply chain unique is the way the relationships are managed. *“In this sense, a major source of differentiation comes from the quality of relationships that one business enjoys compared to its competitors (p126)”*. Complex networks need a network orchestrator or focal firm to drive and guide the development and delivery of customer values.

In a similar vein, Sharma and Sheth (1997) claim that organizational buying in the West is dramatically shifting from a transaction orientation to a relational oriented philosophy and is expected to shift from a buying process to a supply relationship management process.

Hoyt and Huq (2000) argue that supply chain philosophies have changed over the past two decades. Supply chain transactions in the 1980s relied more on governance mechanisms based on arm’s length relationships that were more compatible with the principle of TCE (Transaction Cost Economics). It was not until the end of the 1990s that there was an increasing awareness of the value of co-operation in the supply chain.

A governance based perspective represents a more comprehensive way of studying relationships in supply chains (Jain and Dubey, 2005). The literature reveals three levels of relational governance (Williamson, 1985; Heide, 1994; Zaheer and Venkatraman, 1995; Jain and Dubey, 2005; Claro et al., 2003):

1. Firms are involved in a business relationship with the purpose of exploiting the economic gains of the transaction;
2. A transaction develops based on social bonds of trust;
3. Business relationships are determined by the economic and social environment in which firms are embedded.

These levels of relational governance are indeed Western forms of supply relationship management and provide a trichotomy of relational governance, i.e., based on economic exchange, social bonds and a hybrid perspective (a mix of the former two).

### 2.2.2.2 Economic Exchange

Three perspectives on supply relationship management based on economic exchange have been identified as: Transaction Cost Economics (TCE), Agency Theory and Supplier Portfolio Management; all of which are based on opportunism, defined by Williamson (1985) as *“self-interest with guile”*.

#### *Transaction Cost Economics (TCE)*

Opportunism and bounded rationality are two behavioural assumptions of TCE (Williamson, 1985). TCE presumes everybody can act opportunistically; therefore opportunism is the way of relational governance and the construct of TCE.

#### *Agency Theory*

Another perspective on supply relationship management based on economic exchange is discussed in agency theory. The management of relationship can be categorized by outcome and behaviour-based contracts (Eisenhardt, 1989a). Outcome-based contracts reflect the extent to which purchasing organizations emphasize results. Behaviour-based contracts focus on process.

#### *Supplier Portfolio Management*

A third perspective is supplier portfolio management. Wagner and Johnson (2004: 717) define strategic supplier portfolio management as “*the management of an array of supplier relationships, each having various characteristics and each serving the firm in different ways*”. Dyer et al. (1998) explicitly point out executives should strategically segment their suppliers into strategic partners and durable arm’s length suppliers in order to allocate different levels of resources to each group.

Goffin et al. (2006) claim that supplier relationships range from transactional to close partnerships. Partnership-like relationships are context dependent rather than being an absolute concept. The degree of *closeness* offers a way to both explore and explain relationships. Closeness of partnership-like relationships is dependent on the power position in which partner members are. Emerson (1962) defines the reciprocal power-dependence relation as “*power resides implicitly in the other’s dependency* (p32)”. The notion of reciprocity in power-dependency relationships raises the question of equality or inequality of power in the relationship.

#### **2.2.2.3 Social Bond**

Larson (1992) argues that the social dimension of transactions is central in explaining control and coordination in the exchange structures. Three broad perspectives are identified: the first based on resilience, the second based on network governance, and the last based on the IMP Group perspective.

#### *Trust and resilience*

Resilience is defined as “*the ability of a system to return to its original state or move to a new, more desirable state after being disturbed*” (Christopher and Peck, 2004: 2).

They argue that in order to reduce supply chain risk, it is important to create a resilient supply chain and that to achieve resilience; three elements need to be in place: (1) a high level of collaboration between supply chain members, (2) supply chain agility, and (3) the creation of a risk management culture.

Wilding (2003) proposes the 3 Ts of highly effective supply chains. Besides visibility and velocity (Time and Transparency in his article), a third concept is introduced: Trust, which is explicitly explained as an element of the resilient supply chain. A high level of collaboration and agility is in turn dependent on the level of trust between supply chain members.

Taking a similar perspective, Lane (1998) argues that trust between trustor and trustee is a means of coping with uncertainty in the exchange and is a belief or an expectation that the vulnerability resulting from the acceptance of risk will not be taken advantage of by the other party. Lane also claims that trust involves some degree of

interdependence. Cousin and Crone (2003) identify dependency as a key driver for setting up and maintaining strategic relationships. This however is the essence of Western trust, i.e. a trust that is based on power dependence.

#### *Network governance*

Social embeddedness provides the foundation for social governance mechanisms which include: restricted access to exchanges, *macro-culture*, collective sanctions and reputation. These mechanisms provide safeguarding and *coordination* to the network members, increase the trust between them and therefore reduce opportunistic behaviours (Jones et al., 1997).

To summarize the four mechanisms, a good reputation improves a firm's position and brings awards/incentives to the network, and a bad one would be punished either with collective sanctions or restricted access to exchanges so these mechanisms can be combined into one: *reputation/incentive/punishment*.

Park (1996) argues that the network is a governance structure based on *transactional reciprocity*. The presence of reciprocity helps the network overcome the risks of opportunism from network members, to discourage the pursuit of sub-goals through a superior monitoring mechanism, to align incentives, to reveal information, to share firm-specific know-how and technology, and to guarantee performance.

#### *Industrial marketing and purchasing (IMP) group*

Turnbull et al. (1996) argue that the starting point for the development of relationship is the *interdependence* of companies. Brennan et al. (2003) claim that competitive success in business to business markets often depends upon the ability of a firm to adapt specifically to the needs of a single customer organization. They define *dyadic adaptations* as “*behavioural or organizational modifications at the individual, group or corporate level, carried out by one organization, which are designed to meet the specific needs of one other organization* (p1639).” The dyadic adaptation is based on inter-dependence.

Easton (1992) identifies that networking is a *dynamic process*. Firms buying and selling from one another have to have a minimal level of cooperation in order to complete a single exchange. On the other hand, they compete over the ownership of resources. Therefore networks are stable but not static.

According to Dwyer et al. (1987), relationships evolve through five general phases: awareness, exploration, expansion, commitment and dissolution. Awareness refers to party A's recognition of party B as a feasible exchange partner. Exploration refers to the research and trial phase in relational exchange. Expansion refers to the continual increase in benefits obtained by exchange partners and to their increasing interdependence. Commitment refers to an implicit pledge of relationship continuity between exchange partners. Dissolution means the possibility of withdraw or disengagement throughout the relationship development framework. Although a relationship does not necessarily go through all the five phases, it generally follows this *step by step process*.

### 2.2.2.4 Hybrid Strategies

A number of authors (Das and Teng 2001; Nooteboom, 1996; Zaheer and Venkatraman, 1995) attempt to combine the theories of relationship management based on economic exchange and social bonds. Zaheer and Venkatraman (1995) claim that while traditionally the choice of governance has been cast in terms of the two polar extremes, market or hierarchy, the intermediate governance model is based on the argument that contracting is never completely discrete but include some relational elements. This model is defined by them as relational governance.

Linking the relational governance model to relational risk reduction, Das and Teng (2001) suggest that trust and control are two separate routes to reduce risk in alliances. It seems that their model is based on trust because it considers trust as a mechanism to reduce risk. In fact, it also takes opportunistic behaviour into consideration because it applies behaviour, output and network control to mitigate opportunistic behaviours, therefore is a hybrid strategy. Nooteboom (1996) develops a process and control model for analysis of inter-firm relations to reduce relational risks. He takes a comparatively balanced view on the trust/opportunism issue and clearly states that both opportunism and trust have to be considered. Hence it is also a hybrid approach to supply relationship management.

Based on the above review, a summary of Western forms of supply relationship management is developed. The structure and constructs of such concepts are framed in table 2-1.

Western forms of supply relationship management	Economic exchange	TCE	Opportunism
		Agency Theory	Outcome and behavioural control
		Portfolio Management	Closeness
	Social bond	Trust/Resilience	Trust
			Agility
			Collaboration
		Network governance	Coordination
			Reputation/Incentive/Punishment
			Reciprocity
			Macro-culture
	IMP Group	Dynamic process	
		Interdependence	
		Adaptation	
Hybrid strategies	Das and Teng (2001)	Trust	
		Control	
	Nooteboom (1996)	Mix of trust and opportunism	

**Table 2-1: Summary of Western forms of supply relationship management constructs**

### 2.2.3 Guanxi

The literature on Guanxi has focused on two themes since its first appearance in the 1960s: 1) the business implications and benefits of Guanxi; and 2) the possible links between Guanxi and some Western concepts such as competitive advantage, networking and relationship marketing (Fan, 2002). A comprehensive model of Guanxi including both Guanxi constructs and Guanxi building process is needed in order to identify any

differences from Western forms of supply relationship management. In this section, the literature on Guanxi is reviewed with the aim of answering two questions: first, what is Guanxi? Second, what are the constructs of Guanxi and the Guanxi building process?

### **2.2.3.1 What is Guanxi?**

In order to fully appreciate what Guanxi is, it is necessary first to understand some elements of the Chinese culture, in which Guanxi is rooted. Chinese culture emphasizes the teaching of Confucius. Confucius says “my doctrine is that of an all-pervading unity. What you do not wish when done to yourself do not do to others. Faithfulness and *reciprocity* both make up the unity, but faithfulness is included in the principle of reciprocity” (Chen, 1911).

As a moral system, Confucianism focuses on the relationship between man and man, which is defined by five virtues: humanity/benevolence (*ren*), righteousness (*yi*), propriety (*li*), wisdom (*zhi*) and trustworthiness (*xin*). Another focus is on the five hierarchical relationships between father and son; ruler and ruled; husband and wife; elder brother and younger brother; and friend to friend. These are the virtues and relationships of a society where all are inherently kept in order. Apart from the performance of assigned duties, filial submission, loyalty, decency and reciprocity are also required. Confucianism requires a broad commitment to a harmonious operation and welfare of a society (Luo, 1997). Relationships in China are therefore explained in terms of *harmony*, as well as *hierarchy* and the development of moral potential and kinship (Buttery and Wong, 1999).

It has long been recognized that Guanxi is one of the major dynamics in Chinese society where business behavior revolves around Guanxi. Any business in Chinese society, including both local firms and foreign businesses, inevitably face Guanxi dynamics (Luo, 1997). Parnell (2005) uses Lee et al’s (2001:52) definition of Guanxi as it refers to a special type of relationship that bonds the exchange parties through reciprocal exchange of favours and mutual obligations. Reciprocity, based on *renqing* (favour), is the real dynamic behind the practice of Guanxi. Wong and Tam (2000) consider Guanxi as a relationship building process. Recognizing its dynamic nature and viewing Guanxi over time, Chen and Chen (2004) propose a three-stage model of Guanxi development, namely initiating, building and using Guanxi.

### **2.2.3.2 Guanxi Constructs**

Liang (1949) argues that Chinese society is based on memberships and relations in extended families and that family is the only meaningful structure of Chinese society. Through pseudo families, relations can be extended beyond the immediate family and ‘outsiders’ can be transformed into members of a family-like structure based on the parties’ relations (Lin, 2001). Relations must be based on sentiment and loyalty, the core elements of family relations. This reflects the *family orientation* of Chinese society and is identified here as the first construct of Guanxi.

As a continuation of Luo (1997), Park and Luo (2001) argue that Chinese society has been functioning as a clan-like network since Confucius codified societal rules, values,

and hierarchical structures of authority during the sixth century BC. As such Chinese society places great stock on the importance of *face* (*mianzi*), which is an intangible form of social currency and personal status affected by one's social position and material wealth. Face (*mianzi*) is identified as the second construct of Guanxi.

The third construct is that of *renqing*. Hwang (1987) explains that *renqing* is a set of social norms by which one has to abide in order to get along well with other people in Chinese society. *Renqing* is a resource that an individual can present to another person as a gift in the course of social exchange.

According to Hofstede (1991), Chinese economies rank highly on power distance, which means that the Chinese are more willing to recognize and accept a hierarchy of authority than their Western counterparts, as well as depending on the decision of their supervisors without questioning (Buttery and Wong, 1999). The high power distance or *hierarchy*, which is missed by other Guanxi models, is proposed here as the fourth Guanxi construct.

Chen and Chen (2004) propose the construct of *closeness* which is included as the fifth Guanxi construct. The quality of Guanxi is dependent on Guanxi bases and is assessed by the distance between where the Guanxi partner locates in the psychological Guanxi net space and the centre in which the self is located (Figure 2-1). Jacobs (1982) define three Guanxi bases: family (*jia-ren*) Guanxi; someone familiar (*shou-ren*) Guanxi and strangers (*sheng-ren*) Guanxi. The closer the relationship is, the smaller the psychological distance between the Guanxi partner and the self, and the better the Guanxi quality.

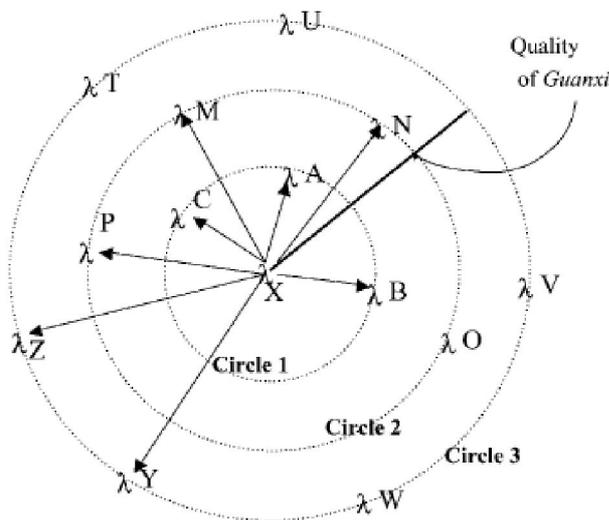


Figure 2-1: Person X's Guanxi net (Source: Chen and Chen, 2004)

Kiong and Kee (1998) claim that business relationships for Chinese firms tend to be highly personalised and built on *personal trust*, which is the sixth construct of Guanxi. The general distrust is due to great uncertainty in the environment, stemming from unreliable legal, political, commercial and other institutions. It is necessary to rely on personal relations to buffer one from wider insecurity. The distrust of outsiders is

evident at every level of doing business. The closer one's Guanxi is to another, based on Guanxi bases, the deeper the trust.

Fock and Woo (1998) identify further characteristics of Guanxi as perceived by Hong Kong business executives; these include mutual cooperation and exchange of information. As these can be seen as concurrent characteristics, *Mutual Cooperation and Exchange of Information* are identified as seventh construct of Guanxi.

The major characteristic of Chinese culture is the maintenance of internal *harmony*, which is most likely to be achieved by compromising individual interests and choosing social conformity, non-offensive strategies and submission to social expectations (Hwang, 1987). Since Guanxi is deeply rooted in Chinese culture, harmony is considered the eighth construct of Guanxi.

### 2.2.3.3 Guanxi Development as a Relationship Building Process

Similar to Chen and Chen's (2004) Guanxi development model, Wong and Tam (2000) claim that Guanxi building is a *dynamic process*. The process of Guanxi building starts from Guanxi perceptual positioning, then through Guanxi routing strategies to the implementation of Guanxi (Figure 2-2). Guanxi positioning illustrates the type of relationship in the insider/outsider dichotomy.



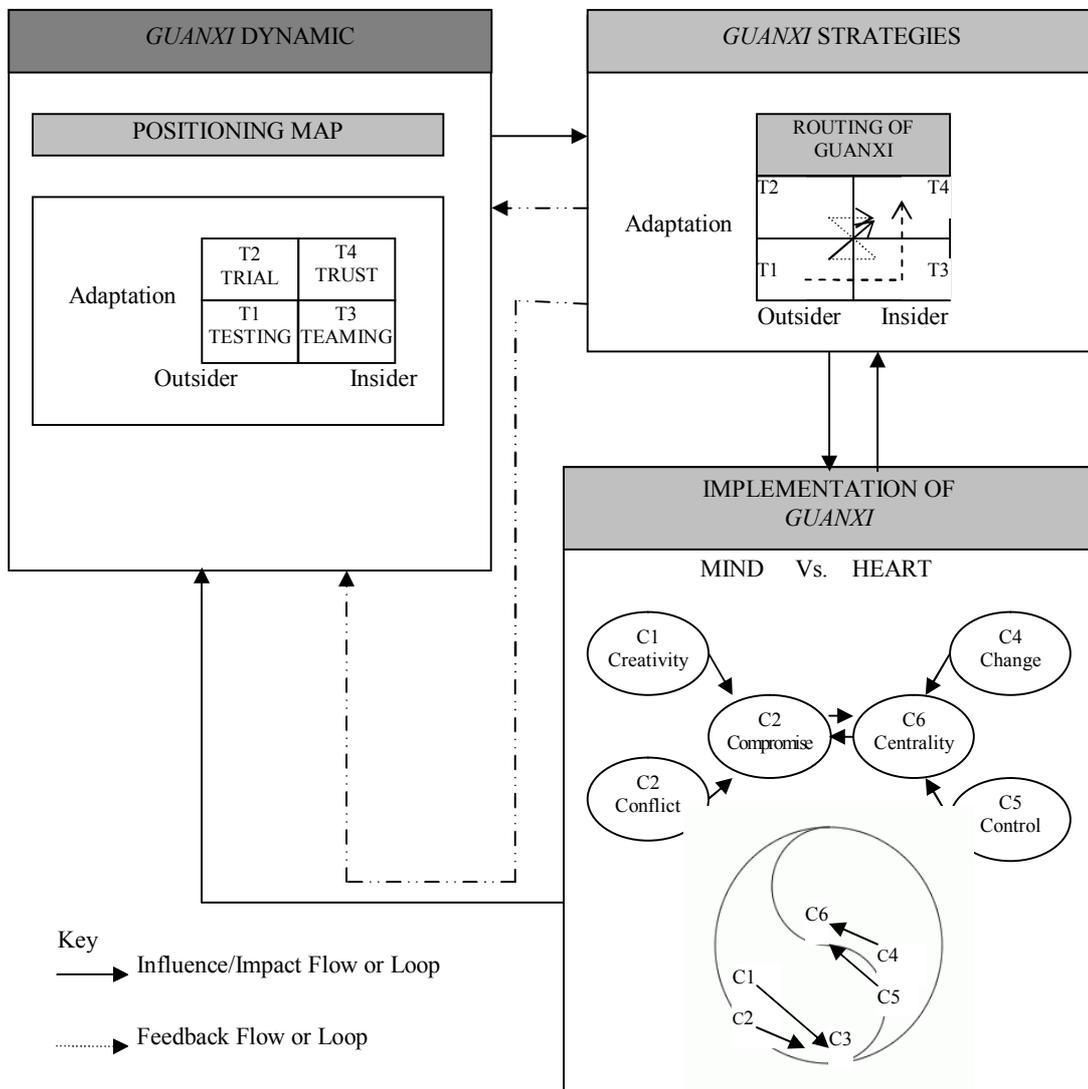
Figure 2-2: Guanxi model-relationship strategic process (Wong and Tam, 2000)

To analyze the complex interactive behaviour of Guanxi, Wong and Tam (2000) propose four outsider-insider "T" psychological concepts (Figure 2-3): testing, trial, teaming and trust. In the "testing" quadrant, each party tests the other parties' intentions or reactions. If two parties mutually accept each other as insider friends, they are regarded as "teaming" members. If a strong Guanxi relationship has been established after the parties enter the teaming quadrant, they may go to a higher stage and enter the "trust" stage with substantial relationship-specific investment. In the "trial" quadrant each party bargains with power, which in turn depends on how each party evaluates its dependence on and level of trust in the other party (Wong and Tam, 2000).

Unlike Western relationship building process, which follows step by step procedures, Guanxi building is more *flexible*. Figure 2-3 also shows three Guanxi routing strategies. The shortcut route is a straight diagonal route from the testing position to the trust position or vertical or horizontal "I" route from testing to trial or testing to teaming. Another route is testing through teaming to trust or testing through trial then to trust, like an "L" route. The longest route, like a "Z"-shaped route, is testing, teaming, trial and trust (or testing, trial, teaming and trust) sequentially (Wong and Tam, 2000).

Hwang (1987) argues that relationship building in China is based on the interplay between 'Face' and 'Renqing'. Chinese society places great stock on the importance of

face (mianzi). Chinese people do favour to others and as a result of it, win faces. This higher prestige facilitates a higher level of favour exchange with others.



**Figure 2-3: An integrative Guanxi model: the links and feedback flows of various components (Wong and Tam, 2000)**

Strutton and Pelton (1997) explore the dynamics of relational conflict and attempt to link *war strategies* with *yin-yang philosophy*. They explain that when relationships conflict, only two movements are available to either partner: to push or pull the door. The Chinese would take a strategy called yielding i.e. the other party tries to attack or ‘push’, then Chinese would defend or ‘pull’ and try not to confront the other party, and vice versa. This is called a complementary response. They warn Western managers that the Chinese are heavily influenced by the military thoughts in a book named “The Art of War” by Sun Tzu, who is a Chinese ancient war strategist and may apply war strategies in business. According to him, the essence of successful warfare is deception and one of the key weapons of deception is the yielding strategy.

According to Buttery and Wong (1999), *adaptation within Guanxi network* is a construct of the Guanxi development process and refers to the Chinese willingness to be flexible and adapt to situations within the safety of a Guanxi network and to trust which binds members of the network.

Hofstede (1991) provides the fifth dimension of national culture which is *long term orientation* referring to positive, dynamic and future oriented culture linked with such Confucian values as persistence and thrift. Short-term orientation represents a negative, static, traditional and past-orientated culture. Styles and Amber (2003) argue that the building of Guanxi is associated with longer term considerations. These relationships take time to develop, but once formed, are difficult to break and the obligations one has are difficult to avoid.

Parnell (2005) explains Guanxi as *interpersonal*, inter-group exchange or interaction. It is seen as a complex, multifaceted, socio-cultural phenomenon which is difficult to conceptualize. Yet he reckons that Guanxi networks are by definition *informal*. If they are made formal and explicit, then this unofficial entity will immediately become dysfunctional.

Lee et al. (2001) identify *interdependence* as a construct of Guanxi building process and state that the reciprocal nature of norms based on renqing and the emphasis of face saving will provide the exchange partners with safeguard mechanisms from opportunistic behaviours and allow them to mutually depend on each other.

#### 2.2.3.4 Synthesis

Bringing together the constructs identified and reviewed above, and recognising that Guanxi is also regarded as a relationship building process, a more holistic model of Guanxi is developed (Table 2-2). Wong and Tam's (2000) Guanxi building process model is adopted in this synthesized Guanxi model. The sources of each construct are also summarized in Table 2-2.

<b>Constructs of Guanxi</b>	
Lin (2001)	1. Family orientation
Park and Luo (2001)	2. Face (mianzi)
Hwang (1987)	3. Favour exchange (renqing)
Hofstede (1980,1991)	4. Power distance/Hierarchy
Chen and Chen (2004)	5. Closeness
Buttery and Wong (1999)	6. Personal trust
Fock and Woo (1998)	7. Mutual co-operation & Exchange of Information
Hwang (1987)	8. Harmony
<b>Constructs of Guanxi building process</b>	
Wong and Tam (2000)	1. Dynamic relationship building process: different routing strategies & interplay of face and renqing
Hwang (1987)	
Strutton and Pelton (1997)	2. War strategies/yin-yang principle
Buttery and Wong (1999)	3. Adaptation within Guanxi network
Hofstede (1980,1991)	4. Long-term orientation
Parnell (2005)	5. Personal and informal
Lee et al. (2001)	6. Interdependence

**Table 2–2: Summary of Guanxi constructs and Guanxi building process constructs**

## **2.2.4 Differences between Guanxi and Western Forms of Supply Relationship Management**

Based on the summary of Guanxi and Western forms of supply relationship management, it can be concluded that Guanxi is a Chinese approach to relationship management applicable to both business and personal relationships, analogous to the Western concept of supply management (Lee and Humphrey, 2006). Western forms of supply relationship management are also a type of relationship management; therefore they have similar constructs. The comparison is shown in figure 2-4 and explained in below.

### **2.2.4.1 Nine Cultural Behavioural Differences**

Based on the comparison in Figure 2-4, nine differences between Guanxi and Western forms of supply relationship management have been identified. The hybrid strategy is not shown in figure 2-4, because the constructs identified in economic exchange and social bonds include those identified in the hybrid strategies.

#### *Difference one*

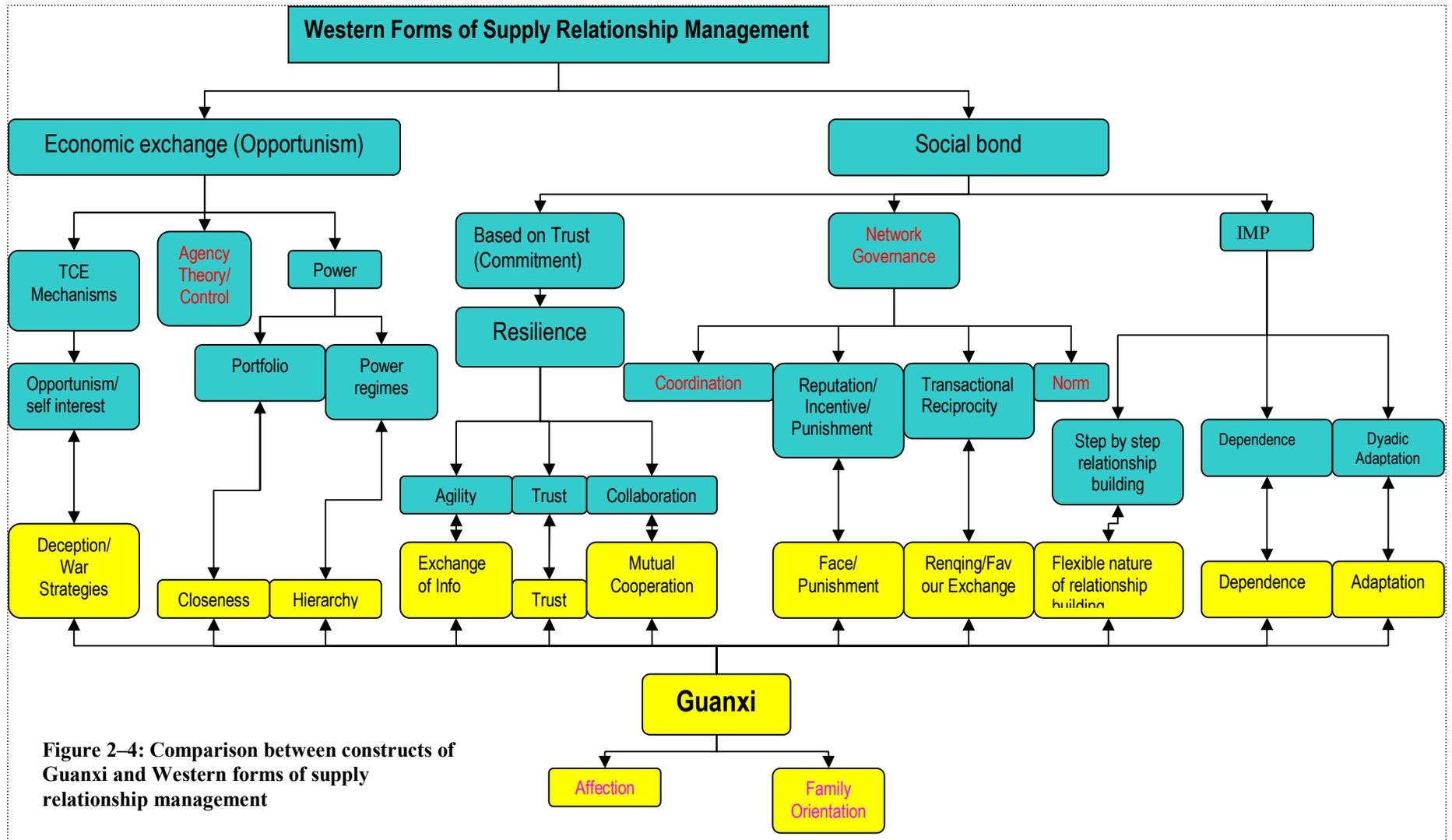
Western firms using an arm's length management approach based on opportunism will face a self-fulfilling prophecy in that they will be treated as outsiders and with opportunistic activities by their Chinese suppliers, and normally with war strategies combined with yin-yang principle.

War strategies have been widely applied in business in Asian countries including China, Japan and Korea (Ambler, 1994). Strutton and Pelton (1997) explain that the essence of successful warfare is deception. Victory is to be achieved through any means, and deception of the opponent plays a vital role in the strategy of war. The ability to mislead an opponent has always been seen by Chinese as admirable.

#### *Difference two*

The second difference is related to the different understanding of trust. Trust in China is on a person to person basis, while there also exists trust at an organization level. On the contrary, organization trust is more credible than personal trust from some Westerners' point of view. Chinese buyers and suppliers emphasize more on trust at a personal level rather than satisfaction at an organizational level to generate partnership relationships (Leung et al., 2005).

Parnell (2005) points out that exchange partners in Guanxi have affective and personal involvement in the relationship, resulting in effective commitment. In contrast, relational exchange partners in the West tend to have economic and impersonal involvement which leads to calculative commitment.



#### *Difference three*

The core of Chinese society is family therefore Chinese individuals are only responsible for their families rather than the society as a whole. That is why it is accepted in Chinese culture to use deception and other war strategies to deal with outsiders (strangers or unfamiliar people), to practice Guanxi with insiders (family or pseudo-family members), and not to take laws, policies and rules seriously. In the West, individuals are responsible for the society's laws, regulations and network governance mechanisms.

#### *Difference four*

Favour exchanges that take place between members of the Guanxi network are not solely commercial but also social, involving the exchange of renqing (social obligation) and the giving of mianzi (face in the Guanxi network) in China. The feature makes Guanxi be often named as social capital. In contrast, networking in the West is virtually associated with commercial-based corporate-to-corporate relations. The network mechanisms including reputation, incentive and punishment and transactional reciprocity are all applied at corporate level. Guanxi is essentially personal and not corporate relations (Luo, 1997).

#### *Difference five*

The Western concept of closeness or relationship magnitude is determined by trust, commitment and dependence, while closeness in China is determined by Guanxi bases. Jia-ren (family) Guanxi is closer than Shou-ren (familiar people) Guanxi, which in turn is closer than Sheng-ren (Strangers) Guanxi. The sense of social hierarchy in China indicates people should respect and follow the orders of the ones more senior in social status and older than themselves in the Guanxi network. In the West, the portfolio management dictates managing suppliers based on relative power position.

#### *Difference six*

Compared to different routing strategies of the Guanxi building process, Western forms of supply relationship management are progressive or step by step in nature. Guanxi relationship building process is more flexible in the sense that it consists of different routing strategies.

The Chinese build Guanxi based on the Yin-yang principle, which is based on a different psychological process from the West. Westerners adopt a dualistic thinking in black and white, which means they normally consider that things must be one way or the other. This difference between Yin-yang principle and dualistic thinking is explained in the next section.

#### *Difference seven*

The construct of control is unique to Western forms of supply relationship management. Western firms using Das and Teng's (2001) approach, may still be at risk because control works with the Chinese only if Guanxi has been set up. The control may not work with the Chinese, because they do not think contracts are as important as relationships. Therefore control may not be as effective as Western firms think it will be and the Chinese supplier may as a result use deceitful tactics to deal with the Westerners.

#### *Difference eight*

Exchange of information and collaboration in China is confined to a person to person basis and within the Guanxi network. The aim of exchange of information and collaboration is for the benefit of self or his/her family. In the West, exchange of information and collaboration are organizational behaviours.

#### *Difference nine*

The aim of adaptation and interdependence in China is to maintain the harmony within the Guanxi network, while in the West firms adapt to other firms because they are dependent on, or less powerful than, other firms. It seems that they are forced to adapt. With the same thought in mind, if Western firms do not know how to maintain harmony with Chinese firms and try to force Chinese firms to do something, they would be treated as outsiders.

### **2.2.4.2 Three Root Differences**

Categorizing and combining the nice differences, three root differences, which capture the fundamental cultural behavioural differences, emerge as a result.

#### **2.2.4.2.1 Cultural Behavioral Root Difference One: Family Orientation vs. Self Interest**

One of Hofstede's (1991) five dimensions of national culture is *Collectivism and Individualism*, which measures the degree of individualism in society. Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which people from birth onward are integrated into strong, cohesive in-group, which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty.

Nisbett et al. (2001) explore deeper level cultural differences and claim that the social differences that exist among different cultures affect not only their beliefs about specific aspects of the world, but also their naïve metaphysical systems, their tacit epistemologies and even the nature of their cognitive processes. From a social-psychological perspective, they argue that the cognitive differences between ancient Chinese and Greeks, which is believed to create the origin of Western culture, can be categorized under the heading of holistic versus analytic thought. Holistic thought is an orientation to the context as a whole including attention to relationship. There is emphasis on change, recognition of contradiction, the need for multiple perspectives and a search for the 'middle way' between opposing propositions.

By contrast, analytic thought detaches the object from its context and focuses on the attributes of the object and their categorization. The analytic mindset has a preference for using rules to explain and predict the object's behaviour (Nisbett et al., 2001). The distinction between holistic and analytic thought helps to explain the fundamental cultural difference between China and the West which at a surface-level (Graen, 2008) is interpreted as Collectivism versus Individualism.

Collectivists, such as the Chinese, place group goals and collective action ahead of self-interest and gain satisfaction and feelings of accomplishment from group outcomes; while individualists place self interest ahead of group goals (Early, 1989, 1993, 1994; Triandis, 1989). In Chinese society it is specifically the interests of the family that is put before individual interest (Liang, 1949; Lin, 2001). The family orientation has been considered as a form of collectivism, however it is a type of in-group rather than universal collectivism, therefore it is more precisely named familistic collectivism (Yang, 1992).

In the West, self interest is put higher than group interest. However, whether or not one can pursue self interest is based on power dependence because power resides on other's dependence (Emerson, 1962). If an individual is dependent on or has no power over the other, he or she can not pursue self interest.

Therefore, in the context of this research, I refer to our first root difference as *family orientation vs. self interest* rather than adopting the more generalist dimension of *Collectivism and Individualism*.

#### **2.2.4.2.2 Cultural Behavioral Root Difference Two: Guanxi Network vs. Multiple Institutions**

Back to 1900s, Max Weber already argued that although there were certain elements, which could be regarded as preconditions for the development of rational capitalism in Europe, the legal forms and societal foundations for capitalist enterprise were absent in the Chinese economy. The political accumulation of the property, meaning that officials have the best opportunity to exploit the tremendous profits, was not a matter of rational profit-making (Weber, 1964).

This dimension is also echoed by the two mechanisms regulating collective action proposed by Hui and Lin (1996), who claim that Chinese culture regulates collective action using relational mechanisms such as 'face' and 'familial sanction', while American culture relies more on formal agreements. Hui and Graen (1997) also suggest that China is typified by the 'government of people' whereas the United States is typified by the 'government of law'.

Western organisations are governed by multiple institutions i.e. formal constrains over a market economy (Luo, 2000; Xin and Pearce, 1996). Scott (2001) defines institutionalization as the process by which actions are repeated and given similar meaning by self and others. According to him, the aspects of the environment through which institutional influences operate include three pillars:

- Regulative pillar: this includes regulatory structures, government agencies, laws and courts, professions, interest groups and mobilized public opinion;
- Normative pillar: this consists of values, norms and rules promulgated by trade and professional associations.
- Cultural-cognitive conception of institution: this pillar stresses the central role played by the socially mediated construction of a common frame-work of meaning.

Orthogonal to the three pillars, Scott (2001) proposes four types of carriers in which institutions are embedded: symbolic systems, relational systems, routines and artefacts. There are also six levels of analysis: world system, society, organizational field (Industry), organizational population, organization and organizational subsystem. These carriers and levels of analysis imply that there are different sources of institution: world, society, industry and other organizations. Western rules and regulations have been applied at the societal level and even international level. These institutions regulate firms by applying network governance mechanisms.

The Guanxi network or extended family network is probably the most important informal institution in the Chinese-speaking world (Parnell, 2005) and a substitute for formal institutional support (Xin and Pearce, 1996). Redding (1990) also argues that networks in China are useful in the regulation of transactions in the absence of state institutions for that purpose. A well known Chinese scholar of Fudan University in China, Ge (2006), argues that family rules are pervasive in China and have substituted societal rules.

Hong and Engestrom (2004) argue that the issue of authority has deep and unique roots in Chinese culture. Respect for age, authority and social norms stem from the Confucian concept of *li*, which refers to rite and propriety in maintaining a person's position in the social hierarchy (Chen and Chung, 1994). A major characteristic of Chinese culture is the maintenance of internal *harmony*, which is most likely to be achieved by compromising individual interests and choosing social conformity, non-offensive strategies and submission to social expectations (Hwang, 1987). Gabrenya and Hwang (1996) claim that 'harmony within hierarchy' is probably the phrase most commonly used to characterize a wide range of social behaviour in Confucian societies. In the context of management, the Confucian *li* principle favours organizational hierarchy and centralized decision making (Child, 1994). Hence we might conclude that the Guanxi network is featured by harmony within hierarchy.

According to Hofstede (1991), Chinese economies rank high on power distance, which means that the Chinese are more willing to recognize and accept a hierarchy of authority than their Western counterparts, as well as depending on the decision of their supervisors without question (Buttery and Wong, 1999). A high power distance in China literally means *hierarchy*; however, Hofstede's power distance dimension does not capture the characteristic of internal harmony which we understand to be an essential element of the Guanxi network. In the West, the fundamental reason for low power distance is that people are governed by multiple institutions such as laws and procedures rather than hierarchy. Hence, in the context of this research it seems appropriate to substitute Hofstede's *high vs. low power distance* dimension with our second root difference, i.e. *Guanxi network featured by harmony within hierarchy vs. multiple institutions*.

#### **2.2.4.2.3 Cultural Behavioural Root Difference Three: Guanxi Relationship Building Process (GR) vs. Western Relationship Building Process (WR)**

This difference is further divided into four sub-differences:

*Flexible nature of GR featured by the interplay of face and renqing vs. progressive nature of WR*

Models that describe relationship building in a Western context are similar in that they define the sequential stages of an evolutionary process from initial partner contact through to commitment/dissolution (Dwyer et al., 1987; Graen and Wakabayashi, 1994; Wilson, 1995; Iyer, 2002, Graen, 2003). Easton (1992) argues that progression through the stages of the relationship building process as first described by Dwyer et al. (1987) is based on the interplay of competition and cooperation. By contrast, Wong and Tam (2000) offer a Guanxi building model that consists of three optional routing strategies through four psychological states, rather than sequential stages. We might argue that this more flexible model reflects the fact that Guanxi is essentially personal and informal (Luo, 1997; Parnell, 2005) and the process of Guanxi building is featured by the interplay of *face* and *renqing*. Chinese society places great stock on the importance of *face* (*mianzi*), which is an intangible form of social currency and personal status affected by one's social position and material wealth (Park and Luo, 2001). Hwang (1987) explains that *renqing* is first a set of social norms by which one has to abide in order to get along well with others in Chinese society; and second a resource that an individual can present to another as a gift in the course of social exchange.

*Yin-yang principle of GR vs. dualistic thinking of WR*

The Guanxi relationship building process is also based on Yin-yang principles (Strutton and Pelton, 1997), which means that when relationships conflict, only two movements are available to either partner: *to push or pull the door*. The Chinese adopt a strategy called yielding i.e. if the other party tries to attack or 'push', then the Chinese 'pull' and vice versa (Strutton and Pelton, 1997).

Westerners adopt a dualistic thinking in black and white", which means they normally consider that things must be one way or the other (Strutton and Pelton, 1997). In the West, Plato first proposes the dualistic concepts: heaven and earth, body and soul. Hammell (2006) claims that dualism thinking is specific to Western philosophy and tend to categorize anything into 'either/or'. This is reflected in the straightforward way of doing things by Westerners. In the West, dualistic thinking in black and white is pervasive. This thinking make them difficult to understand Chinese Yin-yang principle i.e. when Chinese say yes, it does not necessarily mean yes. Yin and yang represent the contrasting qualities within reality and experience. For example light contrasts with darkness, providing them both with context and therefore meaning.

Yin-yang principle, a Chinese form of dualism, argues that two states (yin and Yang) co-exist in harmony and can be in transition from yin to yang and vice versa all the time (Strutton and Pelton, 1997). Achieving balance is essential for defense. Too much yang makes one too aggressive and too much yin fail to accomplish goals. The Chinese war strategy is also based on Yin-yang principle.

*Personal informal nature of GR vs. corporate to corporate formal nature of WR*

Guanxi is essentially personal and informal (Luo, 1997; Parnell, 2005). Western relationship building however is based on economic principles (Williamson, 1985) and networking in the West is virtually always associated with commercial-based corporate-to-corporate relations and is essentially formal (Luo, 2000).

### *Long term orientation of GR vs. short term orientation of WR*

According to Hofstede (1991), China scores high in the long term orientation dimension whereas Western countries such as the UK and US score low. It is not surprising therefore that in the context of relationship building the Chinese have a long term orientation whereas Westerners have a short term orientation (Styles and Amber, 2003). Relationship building in China is dominated by the forces of Guanxi and as such is informal, has a long-term orientation and is based on the interplay of face and renqing, i.e. it occurs at a personal level. In the West, the process of building a relationship has a short term orientation, is more formal and based on the interplay of competition and cooperation, i.e. it occurs at a corporate rather than personal level.

Jia and Rutherford (2007) argue that these three root cultural behavioural differences have the potential to cause the failure of a partnership. In the next section, cultural behavioural differences' impact on buyer-supplier relationship is discussed.

### **2.3 Cultural Differences' Impact on the Buyer-supplier Relationship**

Relating cultural differences to supply chain management, Monczka et al. (1998) argue that cultural differences do not impact supply chain performance directly but by way of other intermediate proxies such as trust, intensity of communication and commitment between supply chain partners.

In a similar vein, some scholars (Smyrlis, 2004; Smagalla, 2004) claim that cultural distance, which is similar to the concept of cultural difference, between supply chain partners negatively influences the building of their mutual trust, which subsequently impedes their long-term coordination.

Kao et al. (1990) contend that structural-normative harmonisation across different generic cultural families as between Western Christianity and Oriental Confucianism is more susceptible to basic friction and risks of disintegration. Based on the case study research, they conclude that the imperative to adjust and the constraint on adaptation tend to vary with: 1) the cultural distance of the visiting firms from the host society with the same mother culture and; 2) the cultural variation of the visiting firms from the mother culture itself.

In the context of cultural difference, Hallen and Wiedersheim-Paul (1984) see psychic distance as a major determinant of the successful international business relationship and as a consequence of both cultural and social distance. Social distance refers to the gap or distance between two social groups and is generally a product of cultural distance.

Evans and Mavondo (2002: 517) review the definitions on psychic distance and propose theirs as "the distance between the home market and a foreign market, resulting from the perception of both cultural and business differences." They consider that psychic distance have two dimensions: cultural and business distance. Their measurements for cultural difference are based on Hofstede's national culture framework. Business distance is defined as differences between the home and foreign market regarding the legal and political environment, market structure, business practices and language. Their research results suggest that psychic distance explains a significant proportion of the

variance in financial performance and strategic effectiveness of the firms' distant markets.

It can therefore be concluded based on above review that cultural differences have a significant and negative impact on firms' and relationship performance.

## **2.4 Cultural Adaptation as a Mitigating Strategy**

Khan and Burnes (2007) argue that although focus varies most approaches to managing supply chain risk seem to fall within the boundaries of supply relationship management. The approaches include: Loyalty to existing suppliers (Mitchell, 1995); Building strategic alliances or partnerships with key suppliers (Zsidisin et al., 2000), and early supplier involvement (Krause, 1999). Very few (Levinson and Asahi, 1995; Tsang, 1999) explicitly propose international inter-firm learning or cultural adaptation as a mitigating strategy against the problem facing cross cultural relationships caused by cultural differences.

In this section, cultural adaptation is proposed as a mitigating strategy to the problem caused by cultural differences. Inter-firm learning and its relationship with cultural adaptation are also discussed.

### **2.4.1 Inter-firm Learning**

Supply chain and inter-firm learning literature provide some insights into how to mitigate against the problem caused by cultural differences. Bessant et al. (2003) first propose the expression of Supply Chain Learning (SCL), which refers to learning behaviours in an inter-firm context. Powell (1998) claims that learning in technologically advanced industry is a complex, multi-level process. It involves: 1) learning from and with partners under conditions of uncertainty; 2) learning about partners' behaviour; 3) developing routines and norms that can mitigate the risks of opportunism; and 4) learning how to distribute newly acquired knowledge across different projects and functions. As also suggested by some authors (Spekman et al., 2002; Hallikas et al., 2005), inter-firm collaborative learning can be seen as a means of risk management within the supply chain.

Levinson and Asahi (1995) stress the importance of inter-organizational learning in an international context by giving an example of a failed strategic alliance between Bell Atlantic and TCI. They argue that there is an absence of inter-organizational learning from the beginning to the end of the alliance and that while national cultures can and do affect alliances, alliances themselves can have an impact on national culture. These influences are usually subtle and rarely studied. Finally they identify four steps in international inter-organizational learning:

1. Becoming aware and identifying knowledge,
2. Transferring/interpreting new knowledge,
3. Using knowledge by adjusting behaviour to achieve intended outcomes, and
4. Institutionalizing knowledge by reflecting on what is happening and adjusting alliance behaviour.

## 2.4.2 Cultural Adaptation

Some scholars attempted to explore the methods of adapting to Chinese culture from a Western firm's perspective. For example, Boisot and Child (1999) regard organizations as adaptive systems in complex environment. They argue that in order to reduce the environmental complexity in the case of China, first Western MNCs can choose to apply their standard policies and practices in China, which are well understood and compatible with their worldwide activities; second, argue that Western multinational corporations can absorb the environmental complexity of doing business in China through enlisting the support of local allies. This entails a greater degree of participation in local relational systems. Salmi (2006) takes this a step further and emphasizes that social skills and Chinese cultural knowledge are two key competencies essential for Western firms hoping to overcome psychic distance and develop trading relations in China.

Others approach the issue from the perspective of both parties. For example, Lin and Germain (1999) state that cultural adaptation in a dyadic relationship involves adjustment by members of both cultures. Cultural adaptation involves interactions between culturally different individuals and is defined by Francis (1991: 406) as:

An attempt to elicit approval from members of a foreign culture by attempting to become behaviourally more similar to members of that culture.

Francis' definition of cultural adaptation is adopted in this research. Based on this definition, we understand that: 1) cultural adaptation is behavioural adaptation rather than the adaptation of value or assumptions; 2) the aim of the adaptation is to elicit approval from the individuals of a foreign culture. This definition does not state the subject of cultural adaptation is organization or individual. Cultural adaptation has been studied from an individual level (Jun et al., 2001; Jassawalla et al., 2004; Haslberger, 2005). Very little has been written about the organizational level of cultural adaptation with a few exceptions (Granner, 1980; Boisot and Child, 1999; Lin, 2004; Salmi, 2006). The context of the research on cultural adaptation is organizational level; however it has been later found that it is those individuals at the buyer-supplier interface adapt culturally.

The approach to consider the cultural adaptation as bilateral aligns with the literature on international inter-firm learning which suggests that learning is a two-way process involving learning and change by both partners (Liu and Vince, 1999). Koulikoff-Souviron and Harrison (2007) take the argument further and suggest that the adaptation between a buyer and a supplier may range from unilateral (one partner dominates) to reciprocal (a bilateral or mutual process).

Building on the work of Walsh (1973), Lin (2004) proposes that there are three levels of cultural adaptation: to understand, to adjust and to learn. First of all, foreign firms need to understand another culture on its own terms. Second, cross-cultural adaptation does not necessarily involve a change of a party's fundamental cultural assumptions, but only requires a level of adjustment necessary for smooth interaction. Third, the highest level of adaptation occurs when a party makes a conscious effort to learn from the other party; that is, to integrate elements of the other culture into one's own.

### **2.4.3 Relationship between Cultural Adaptation and International Inter-firm Learning**

Cultural adaptation can be considered as a special form of inter-firm learning in an international context. The process of cultural adaptation shares many similarities with international inter-firm learning. The first two steps of Levinson and Asahi's (1995) inter-firm learning process (being aware of, identifying and interpreting cultural knowledge) align with the idea of *understanding* the other culture, i.e. the first stage in Lin's (2004) cultural adaptation process. The third step in inter-firm learning (using cultural knowledge and adjusting behaviour) equates to Lin's *adjust* stage which implies behavioural adjustment rather than adjustment of cultural assumptions. And the fourth step (institutionalizing knowledge) certainly implies *learning*, i.e. the third stage in Lin's process...to integrate elements of the other's culture into ones own. However, neither of these process models describes what the cultural *knowledge* is that would be the input into the adaptation or learning process.

Although inter-firm collaborative learning is proposed as a way of mitigating supply chain risk (Spekman et al., 2002; Hallikas et al., 2005), none of the literature on inter-firm learning specifically addresses the problems associated with cultural differences. It seems logical that cultural adaptation offers itself as a mitigating strategy against the problem caused by cultural differences.

## **2.5 Benefits of Cultural Adaptation**

As discusses in section 2.3, cultural differences have negative impact on buyer-supplier relationships, cultural adaptation is then proposed as a solution to the problem caused by cultural differences, therefore it seems logical to claim that cultural adaptation generate benefits to buyer-supplier relationships.

### **2.5.1 Cultural Adaptation's Impact on Relationship Performance**

Newman and Nollen (1996) argue that the competitive advantage derived from correctly adapted management practices comes from alignment between key characteristics of national culture and internal strategy, structure, systems and practices. The congruence between management practices and the characteristics of national culture produce better performance outcomes.

Molinsky (2007) claims that the benefits of cultural adaptation in interaction with different cultures are well-established. For example, cultural adaptation can increase trust and have a positive impact on an organization's success. There are also a number of authors claiming the causal relationship between cultural adaptation and mutual benefits for both parties of a relationship. For example, Francis (1991) admitted that cultural adaptation does improve attraction, which leads to benefits to a relationship. Pornpitakpan (1999) contends that cultural adaptation is beneficial in inter-cultural interaction in the context of Americans selling to Thais. In another study of American adapting to Chinese Indonesians, Pornpitakpan (2005) claims that cultural behavioural adaptation increases the level of perceived trustworthiness, which in turn is beneficial in business interaction.

## 2.5.2 Mutual Benefits for a Partnership

In this study, the context of cultural adaptation is that of a close business relationship rather than an arm's length and adversarial relationship. There are generally three concepts describing close business relationships in the literature: strategic alliance, partnership and Obligational Contractual Relations (OCR). Partnership is the term most commonly used in the supply chain management literature. Lambert et al. (1996) define partnership as:

A tailored business relationship based on mutual trust, openness, shared risk and a shared reward that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually.

In the context of this research, the mutual benefits realised by both parties in a partnership are related to partnership performance and therefore it is appropriate to identify suitable measures of supply chain partnership performance.

Angerhofer and Angelides (2006) argue that most authors agree that a measurement system should use each of the three types of measure: resource, output and flexibility. Resource generally measures cost and improve supply chain performance by reducing cost. Output such as sales, profit, cycle time and customer related measurements measure the output of a supply chain and attempts to improve performance. Flexibility measures the supply chain's ability to cope with volume and schedule variations from customer as well as suppliers. Therefore the mutual benefits or partnership performance measurements for an initial conceptual framework explained later in this chapter are list as follows:

- Total Cost of Ownership (TCO) reduction
- Sales/Profits increase
- Rate of On Time In Full (OTIF)
- Quality improvement
- Flexibility
- Lead-time reduction
- R & D Capabilities improvement

Lambert and Pohlen (2001) argue that the majority of performance measurements are single firm logistics measures such as lead time and responsiveness and are not multi-firm measures that are necessary to measure the performance of the supply chain. This is the case for the above measurements for the initial conceptual framework. There is a management's need for new types of measures for managing the supply chain.

Chan et al. (2003) classify performance measurements into two: qualitative and quantitative. Qualitative measures are those without direct numerical measurements such as customer satisfaction, flexibility and effective risk management. Quantitative performance measurements are those directly described numerically such as measurements based on cost, customer responsiveness and productivity.

Measures focusing on the qualitative perceived degree of performance rather than exclusively focusing on quantifiable outcomes such as total cost reduction or sales

volume have become increasingly popular in inter-organizational research (Geyskens et al., 1999; Shamdasani and Sheth, 1995; Walton, 1996) due in part to the difficulty in comparing quantitative measures across different inter-organizational relationships.

In the context of a supply chain partnership performance study, Myhr (2001) proposes two measures of partnership performance: relationship effectiveness and cost reduction benefits. Both are considered perceptual and qualitative measures measuring supply chain performance.

- Relationship effectiveness refers to the degree to which partners find the relationship to be productive and worthwhile. It is measured in terms of the commitment of parties, their productiveness, reward to the parties, satisfaction of parties and the increased level of supplier expertise.
- Cost reduction benefits provide a measure of the degree to which the business-to-business relationship has enabled the parties to generate benefit as a result of reduced operational costs. It is measured in terms of end-product manufacturing cost, coordination between parties and streamlined practice.

Myhr (2001) proposes cooperative sentiments (relationship commitment and trust) and cooperative behaviours (flexible adaptation and collaboration) as intermediate variables. However, these have been regarded by some authors (Walter et al., 2003; Angerhofer and Angelides, 2006) as relationship performance (outcome) measures.

Walter et al. (2003), based on a review of relationship quality, propose that commitment, trust and satisfaction are quality measurements. Generally, commitment is described as a kind of lasting intention to build and maintain a long-term relationship. Satisfaction is defined as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another.

Trust is a critical element in social exchange relations (Hallen et al., 1991) and has been defined as the perception of confidence in the exchange partner's reliability and integrity (Morgan and Hunt, 1994). It is found that trust is a determinant of cooperative behaviours such as flexibility and collaboration (Mohr and Spekman, 1994; Myhr, 2001; Mello and Stank, 2005).

Flexible adaptation is the extent to which partners adapt their behaviours to environmental changes for the benefits of both parties (Heide, 1994). Collaboration is the degree to which partners are able to collaborate and work together in a joint fashion toward their respective goals (Myhr, 2001). The degree of flexible adaptation and collaboration in the relationship are positively related to partnership performance with respect to relationship effectiveness and cost reduction benefits (Myhr, 2001).

Chen and Chen (2004) propose the concept of Guanxi quality, which is assessed by the distance between the Guanxi partner located in the psychological Guanxi network space and the centre of the space where 'self' is located. It is a neutral term describing the subjective judgment made by the Guanxi parties regarding the current state of their Guanxi (Chen and Chen, 2004). There are three circles which describe Guanxi space that are also referred to as Guanxi bases: namely jia-ren (kinship), shou-ren (familiar) and sheng-ren (stranger) Guanxi. Jia-ren is located in the inner circle, shou-ren in the

middle and sheng-ren in the outer circle. The more central the Guanxi party is in the Guanxi space, the better the Guanxi quality. Referring back to figure 2-1, the Guanxi quality between X and A is better than that between X and N, which is better than the Guanxi between X and U. Because the partnerships are studied under a Chinese context, Guanxi Quality is included as a performance measurement.

Drawing on the literature, six qualitative perceptual partnership performance measures are tentatively proposed as measurements of mutual benefit between a Western buyer and a Chinese supplier. They are listed in below:

- Cost reduction benefits (Myhr, 2001)
- Relationship effectiveness (Myhr, 2001)
- Flexible adaptation (Myhr, 2001; Angerhofer and Angelides, 2005)
- Collaboration (Myhr, 2001)
- Trust (Myhr, 2001; Walter et al., 2003)
- Guanxi quality (Chen and Chen, 2004)

## **2.6 Research Questions and Conceptual Framework**

### **2.6.1 Research Questions**

Based on the literature review, two research gaps in the literature have been identified:

1 Prior works of Levinson and Asahi (1995) propose inter-firm learning as the key to partnership success and Lin (2004) proposes cultural adaptation to overcome difficulties facing Chinese-US joint ventures caused by cultural differences, but neither integrate cultural differences as the ‘knowledge’ input to the process nor do they explicitly propose inter-firm learning or cultural adaptation as mitigating strategies against problem caused by cultural differences.

2 Although a number of authors (Francis, 1991; Liu and Vince, 1999; Boisot and Child, 1999; Molinsky, 2007) claim explicitly or implicitly that adaptation, including cultural adaptation, has a positive impact on relationships, they provide no empirical evidence. Lin (2004) also claims that the essential promise of cultural adaptation is its performance implications. Empirical work is needed to identify the causal relationship between cultural adaptation and partnership performance.

Therefore, based on the gaps identified in the literature, the following two **research questions** are presented:

1. How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
2. How do the mutual benefits achieved relate to the cultural adaptation process?

### **2.6.2 Development of a Conceptual Framework**

This is an initial conceptual framework developed before the pilot study. At that time, I did not realise the need to reduce the number of cultural behavioural differences by integrating them. Nor did I realise the need to use perceptual measures to measure

partnership performance. The development of the conceptual model is explained in detail in the pilot study chapter.

In the development of a conceptual framework, Lin's (2004) cultural adaptation process has been adopted. This dynamic process includes three elements: to understand, to adjust and to learn. In the context of this research, the nine cultural behavioural differences identified in section 2.2.3.1 are the knowledge inputs or content of this cultural adaptation process. From an international inter-firm learning perspective, the nine cultural behavioural differences are areas of learning.

The initial conceptual model (figure 2-5) shows cultural adaptation as a mitigation strategy against problems caused by cultural behavioural difference resulting in mutual benefits for both members of the partnership.

The conceptual model describes the process of cultural adaptation, the cultural knowledge input and the expected mutual benefits of successful adaptation. However, to mitigate the problem caused by cultural behavioural difference, this process of cultural adaptation must take place during the relationship building process between a Western buyer and its Chinese supplier. To develop the model further, the author needs to describe the evolving nature of a cross-cultural relationship as it builds and matures over time.

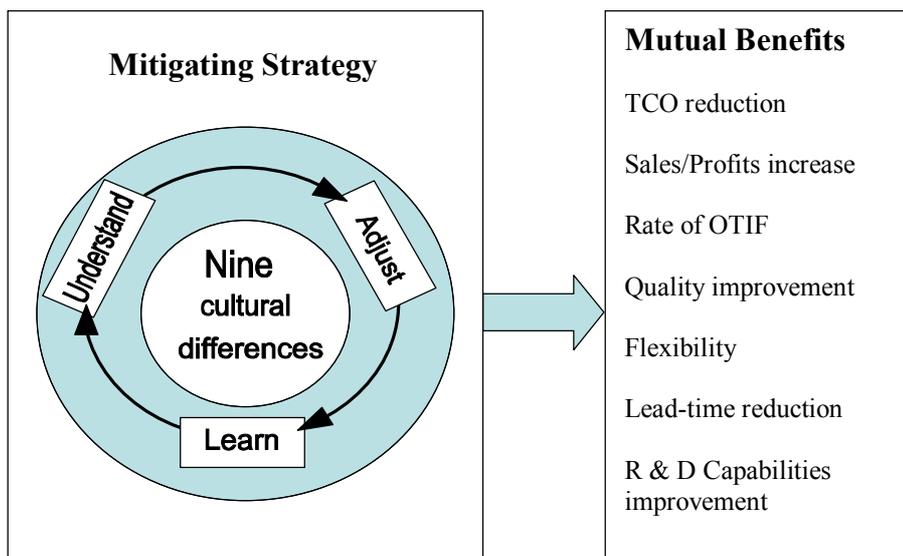


Figure 2-5: Cultural adaptation process and mutual benefits-An initial conceptual framework

### 2.6.3 A Relationship Evolving Process

According to Dwyer et al. (1987), relationships evolve through five general phases: awareness, exploration, expansion, commitment and dissolution. The definitions of the five phases have been presented in section 2.2.1.3.

In a similar vein, Leader Member Exchange (LMX) theory proposes a relationship evolving process from a leadership perspective (Graen, 2003). High LMX refers to effective leadership; leaders are able to exert considerable incremental influence on

their workers and the workers with their leaders. In contrast, low LMX is characterized by unidirectional downward influence, contractual behaviour, formal role defined relations and loosely coupled goals (Graen and Wakabayashi, 1994). They argue that the relationship between leader and members is a process of reciprocal influence and the reciprocal investment process between leaders and selected followers resembles a partnership. This process of reciprocal influence is also evident in asymmetric buyer supplier relationships (Cox, 2004).

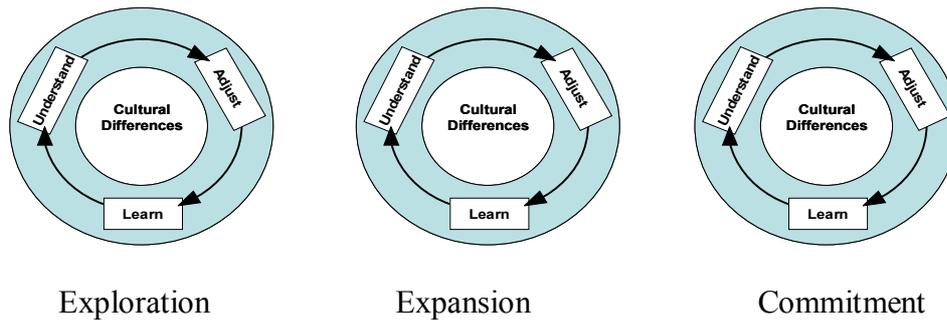
Graen and Wakabayashi (1994) further propose a life cycle model for the development of mature leadership relationships (high LMX); the life cycle model defines three stages: Stranger, described as a “cash and carry” and immediate exchange relationship; Acquaintance, in which increased exchanges occur between leaders and followers, and Partner, characterized by highly developed mutual exchange, long term orientation and relying on loyalty and support.

It seems not unreasonable to suggest that organisations at the ‘Stranger’ stage of a relationship might be in a phase of exploration as described by Dwyer et al. (1987). At the ‘Acquaintance’ stage the relationship might be in a phase of expansion with growing interdependency and finally we might expect a relationship that has reached the ‘Partner’ stage to be in a phase of growing commitment.

In the context of this research Dwyer et al.’s phase of dissolution can be discounted for two reasons: first based on Iyer’s (2002) adaptation of Dwyer’s model, dissolution can occur at any point in the evolution of the partnership and therefore need not be considered a separate phase and second, the focus of this research is on partnership creation, not dissolution. The phase of awareness is not relevant to this research as it is unlikely that any cultural adaptation will be evident in the initial stages of identifying a potential partner.

Based on the life cycle of leadership maturity model of Graen and Wakabayashi (1994) and the core phases of Dwyer et al.’s (1987) model, a three stage relationship evolving process is presented and will later be combined with the model of cultural adaptation (Figure 2-6):

- *Exploration (Stranger)*: the initial stage of relational exchange; the parties are at an exploratory stage in their evolving relationship, but are still considered Strangers;
- *Expansion (Acquaintance)*: the relationship expands resulting in increased interdependency and growing mutual benefit;
- *Commitment (Partner)*: the relationship matures and realises the benefits of a strategic partnership characterized by trust and commitment.



**Figure 2–6: Relationship evolving process and cultural adaptation process**

It is therefore claimed that with the relationship evolves from exploration to expansion to commitment/partnership, both parties of a partnership adapt to each other in various degrees (understand, adjust or learn) in terms of the nine cultural behavioural differences.

## 2.7 Chapter Summary

This chapter starts with comparing Guanxi and Western forms of supply relationship management. The nine cultural behavioural differences are the knowledge input to the cultural adaptation process (understand, adjust and learn).

Second it is argued that cultural behavioural differences have negative impact on the buyer-supplier relationships. Third to address this problem, cultural adaptation is proposed as a solution. Forth it is claimed that cultural adaptation produce mutual benefits to a relationship.

Two gaps are identified from the literature review. First the cultural adaptation process is not clear. Second there is no empirical evidence to support the causal relationship between cultural adaptation and mutual benefits. Based on the two gaps, two research questions and the initial conceptual framework are developed.

It is expected that with the relationship evolves from exploration to expansion to commitment stage, both parties of a Sino-West partnership adapt to each other in terms of the cultural behavioural differences. The cultural adaptation of both parties gains mutual benefits to the partnership.

## **Chapter 3 : Research Methodology and Design**

### **3.1 Introduction**

The aim of this chapter is to make explicit the assumptions of my philosophical stance (Section 3.2), why case studies methodology is selected (Section 3.3), to describe the details of the case study design (Section 3.4). Within the section of case study design, first the role of theory is articulated; second instruments are developed; third data collection techniques are discussed; fourth data analysis strategy is explained and finally the criteria of judging the quality of case studies are illustrated. Section 3.5 summarizes this chapter.

### **3.2 Research Philosophy**

Being explicit about one's preference of philosophical perspective is important because it shapes the way that researchers conduct research, therefore is necessary to communicate these assumptions before engaging in any debate about methodology and methods (Morgan and Smircich, 1980). There are two main elements related to one's philosophical perspective, which need to be aligned: ontology and epistemology. Ontology is concerned with the question of being and knowing i.e. the assumptions we make about the nature of reality (Easterby-Smith et al., 2008). Epistemology refers to a general set of assumptions about the best way of enquiring into the nature of reality.

The aim of this section is first to review the two extremes of philosophical stance; second to position my philosophical stance as critical realism, which is between the two extremes; third because critical realism representing both ontological and epistemological position is too general in terms of ontology, the ontological position of this research is further elaborated as reality as a concrete process.

#### **3.2.1 The Philosophy of Management Research**

There are two contrasting traditions of philosophy in social science research: positivism and social constructionism. Positivists contend that the social world exists externally and its properties should be measured through objective methods rather than inferred subjectively (Easterby-Smith et al., 2008: 57). Social constructionism, in the other hand, has been developed by philosophers to apply positivism to the social sciences and they argued that the reality is socially constructed and given meaning by people (p58).

A researcher's philosophical preference is influenced by her or his background such as native culture, work experiences and training received (Chia, 2002). Neither one of the two extremes matches my background because first of all, I was trained as a Mechanical Engineer in my undergraduate degree, which is more toward positivism, however working in logistics industry as an Account Manager prepared me a down-to-earth way of working and more importantly make me deal with people and lean toward social constructionism. As a Chinese, I have been influenced by Chinese culture and philosophies especially Confucianism. Confucius and his disciples proposed a doctrine of "the mean or golden mean", which means never go to an extreme but integrate them. This thinking helps me resolve the conflict between the two completely opposite

trainings I received and this is the reason why I chose something in between the two contrasting traditions.

### **3.2.2 The Author's Philosophical Position**

#### **3.2.2.1 Critical Realism**

Chia (2002) argue that realism is a modified positivism in the sense that realist researchers consider an organization, its structure and culture and strategy exist independently of their observer, and is therefore similar to natural phenomena in that sense. However Realism rejects positivism and adopts the interpretive position by acknowledging that there are fundamental differences between natural and social phenomena. Natural phenomena requires the scientist to invent concepts and theories to describe and explain; while the study of social phenomena requires an understanding of the social world which people have constructed. It is argued that social world is already interpreted before the social scientist arrives (Blaikie, 1993).

Another difference between Positivism and Realism is that the former believe there is only one reality whereas the latter believe there are three levels of realities (Bhaskar, 1978):

1. *Empirical domain* consists of experiences and events which can be observed. Related to this research, such events could be the ownership of the Chinese suppliers.
2. *Actual domain* comprises of those events observed or unobserved. This could be the perception of the sourcing managers on whether they reached the level of “understand”, “adjust” or “learn” of the cultural adaptation process. This could not be observed but only could be obtained through interviews.
3. *The real domain* consists of underlying mechanisms and is the ultimate aim of research. These mechanisms explain why such events happen. In this research, the Hybrid Culture model, which indicate who adapt on what, is the underlying mechanism, which explains the cultural adaptation process and behaviours.

My view of management research is aligned to the critical realism as I attempt to explain a phenomenon, which include observable and unobservable events to researchers by understanding its underlying mechanisms. The way people deal with each other and their responses to the questions can be observed. However the perception of mutual benefits can not be observed. It is always my belief that there must be a reality/mechanism out there waiting to be discovered.

However the ontological perspective expressed by critical realism as reality independent of human, in this case cultural adaptation is independent of human, seems to be oversimplified. A more explicit and detailed ontological position relevant to this research is needed. There are three alternatives residing within the continuum

	Subjectivist <span style="float: right;">Objectivist</span> 				
Ontological assumptions	Reality as a social construction	Reality as a realm of symbolic discourse	Reality as a contextual field of information	Reality as a concrete process	Reality as a concrete structure
Assumptions about human nature	Man as a social constructor, the symbol creator	Man as an actor, the symbol user	Man as an information processor	Man as an adaptor	Man as a responder
Epistemological stance	To understand how social reality is created	To understand patterns of symbolic discourse	To map contexts	To understand systems, process, change	To construct a positivist science
Favoured metaphors	Language game, accomplishment, text	Theatre, culture	Cybernetic	Organism	Machine
Research methods	Hermeneutics	Symbolic analysis	Contextual analysis of gestalten	Historical analysis	Lab experiments, survey

**Table 3–1: Network of basic assumptions characterizing the subjective- objective debate within social science (Adapted from Morgan and Smircich, 1980)**

between the two extreme epistemological positions according to Morgan and Smircich (1980) shown in table 3-1.

Starting from the right (objectivist) to the left (subjectivist), “the epistemology of extreme positivism, derived from a mechanical conception of the universe as a closed structure, gives way to an epistemology emphasizing the need to understand process and change” (Morgan and Smircich, 1980: 493). Reality as a concrete process is an epistemology that move away from the conception of the world as a machine to one of the world as an organism, an open system. This epistemological stance stresses the importance of monitoring process, the manner in which a phenomenon changes over time in relation to its context. Relationship between individuals and its environment express a pattern of activity necessary for survival and well-being of the partnership.

This is the ontological position of this research because cultural adaptation is a process and the focus of this research is on the cultural behavioural adaptation/change. Partnerships, which are considered the “organism” in this research, influence and are influenced by the context and seek to exploit the environment to survive. The research takes a retrospective perspective, selecting cases in their partnership stage and looking retrospectively at how both parties adapted from its initial stage up to partnership stage. This is called historical analysis by Morgan and Smircich (1980) and aligned with the ontology seeing reality as a concrete process.

Moving one step to the left in table 3-1, this stream of ontologists see reality as a contextual field of information that requires a holistic understanding of the contexts and stress the need to understand how organizations and environment evolve together This is different from reality as a concrete process, which assume that the adaptation of partnership to the context is one way (Morgan and Smircich, 1980). However a holistic understanding of the context to the partnership is a very difficult if not impossible mission. Furthermore the relationship between context and the cultural adaptation is not the focus of this research therefore this ontological stance is rejected.

The next position along the continuum is reality as a realm of symbolic discourse. The emphasis is placed on understanding the nature and patterning of the symbols through which individuals negotiate their social reality (Morgan and Smircich, 1980). This stream is more toward constructivism considering man as an actor or symbol user, which is not aligned with this research.

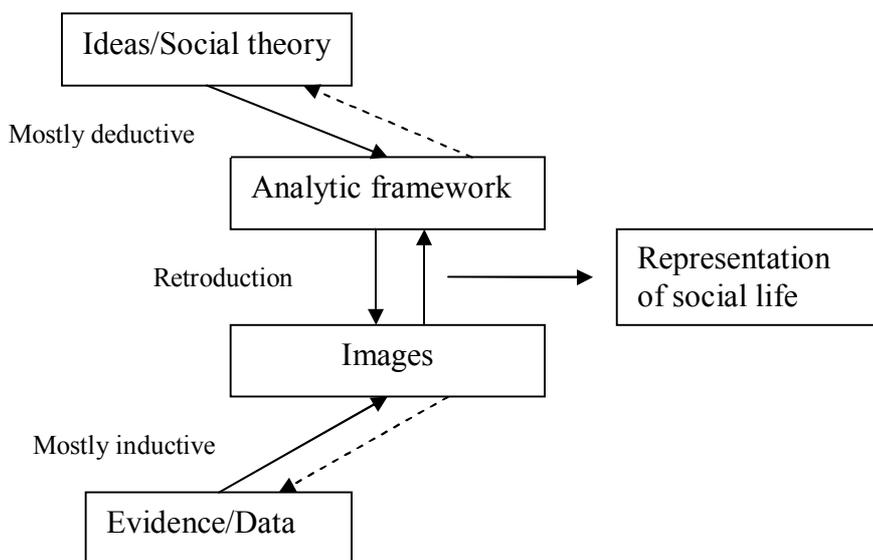
It can be seen that both the reality as a concrete process and reality as a contextual field of information considering reality is independent from human therefore aligned with the ontological position of critical realism. Both can be seen as subsets of critical realism.

### **3.2.2.2 Retroduction Logic**

One key aspect of the philosophical issue is the logic of the theory development. Harrison (2002:159) explains that “two time-honoured solutions for the social enquiry are induction and deduction. However both inductive and deductive methods are intimately related in the activities of doing empirical research and theorizing.” He

continues, “The strategy that is used to describe the interplay of induction and deduction is called retrodution.”

A retroductive strategy is adopted by the Realist approach to social enquiry. Research based on the Realist approach begins in the domain of the actual, with observed connections between phenomena-perhaps correlation between variables. The task is to explain why such relationships occur. The second step is to postulate the existence and operation of these structures and mechanisms. Bhaskar (1978:4) also proposes “a three-phase scheme of development e.g. science identifies a phenomenon, constructs explanations for it and empirically tests its explanations, leading to the identification of the generative mechanisms at work, which now becomes the phenomenon to be explained and so on”.



**Figure 3–1: A simple model of social research (Ragin, 1994)**

Bhaskar’s three phase scheme is aligned with Ragin’s (1994) model of social research, which clearly explains retrodution logic and interactions between theory, framework, and data (figure 3-1). Ideas or social theory indicate literature in social sciences. Based on the social theory, an analytic framework is deducted. Evidence or data are collected by researchers from field work shown in the bottom of the diagram. Idea and evidence interact through images and analytic framework shown in the middle of figure 3-1. Analytic framework or conceptual framework guide data collection and constantly compared with images, which are inducted, synthesized and refined data. If image does not fit analytic framework, it is necessary to determine whether different images can be constructed from the data or whether different framework can be derived from theory. Alternatively researchers could use images to devise new analytic frameworks or revise old ones. The interaction between analytic framework and images applies retrodution logic.

It can be seen that retroductive research strategies involve the construction of hypothetical models as a way of uncovering the real mechanisms but researchers do not begin with a complete set of analytic categories, neither are these attained at the very

end. Instead retroduction involves the cyclical and iterative progression of logical reasoning; moving back and forth between the empirical data, literature and theoretical framework through constant theorising with the aim of developing more refined analytic categories (Miles and Huberman, 1994: 17).

This research follows the retroduction logic by going through the iterative circle of literature, conceptual framework, image and data. For example, I reviewed the literature on hybrid culture after this concept emerged from the data and then revised the conceptual framework based on the literature review. The hybrid culture concept was regarded as image.

### **3.3 Why Case Study Research?**

Yin (2003) claims that case study is one of a number of ways of doing social sciences research. Other ways include experiments, survey, histories and the analysis of archival information. This section starts by answering the question why is the case study method appropriate and then move on to case study research design issues.

#### **3.3.1 Alignment of the Nature of the Research and Case Study Methodology**

The case study method is defined as: “an empirical inquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident.” (Yin, 2003:13)

It is argued that the nature of this research is aligned with case study method. One of the aims of this research is to find out how Western buyers and their Chinese suppliers adapt to each other, which is exploratory in nature. Two of the research questions are two “how” questions about a contemporary phenomena (Yin, 2003), that has not yet been thoroughly researched. The phenomenon is cultural adaptation of a partnership and the context of cultural adaptation is complex including such elements as Chinese culture. These natures of this research make multiple case studies the logical methodology.

Yin’s view on case study has been echoed by authors in the operations management and supply chain management field, to which this research contributes. Voss et al. (2002:195) claim that “case research has been one of the most powerful research methods in operations management, particular in the development of new theory”. From a supply chain perspective, Ellram (1996) argues that the case study method provides depth and insight into a little known phenomenon.

Yin (2003) continues to categorize case study into three types: descriptive, explanatory and exploratory. This research involves all three as explained below. To answer the first research question is to describe and explore how both parties of a partnership adapt to each other; therefore is both descriptive and exploratory case study. The second research question is to explain a causal relationship between cultural adaptation and mutual benefits to partnerships; therefore is an explanatory case study. By analysing the context of cultural adaptation of partnerships, factors influencing cultural adaptation process emerged, which is an exploratory case study. Yin also questions the view that case study can only be used as a preliminary research method and claims that it can also

be used to test and describe propositions. The second research question involves testing a proposition. Therefore the case study method is the most appropriate method to answer the research questions.

### **3.3.2 Alignment between Case Studies and Critical Realism**

Yin (2003) argues that the distinction between qualitative and quantitative research is not based on the types of evidence but on the basis of different philosophical stances i.e. qualitative research associated with social constructivism and quantitative research associated with positivism. However, he continues that the case study method should not be confused with qualitative research because it could include both qualitative and quantitative data. It seems that the philosophical stance of researchers using case study can include elements of both positivism and social constructionism.

Perry (1998) explicitly claims that realism is the preferred paradigm for case study research because: 1) case study research is appropriate for inductive theory building. Inductive approach represents phenomenological paradigm that included realism; 2) case study research often involves the collection of individuals' perception of unobservable phenomena, which fall into the actual domain of realism; 3) the quality criteria of case study provide reliability of which constructivism is less evident.

### **3.3.3 Alignment between Case Studies and Cross Cultural Research**

Since this research involved collecting data from both China and UK; therefore can be regarded as a cross cultural research. It is argued that the case study method is aligned with cross cultural research because there are a number of advantages. First Ghauri (2004) argues that the case study method is particularly well suited to international business research, where data are collected from cross-border and cross-cultural settings. In this study, data were collected from individuals based both in the UK and China. Surveys and/or experiments raise serious questions about equivalence and comparability of data collected from different countries. The case study method provides excellent opportunities for respondents and myself to check our understanding and keep on asking questions until they obtain sufficient answers and interpretations.

Second Marschan-Piekkari and Welch (2004) state that advantages of the qualitative method for cross cultural research are that qualitative research allows for deeper cross-cultural understanding and is less likely to suffer from cultural bias and ethnocentric assumptions on the part of the researcher than survey instruments. The case study method is considered a qualitative research method by them.

Third qualitative research takes an "emic" perspective investigating other organizations and societies on their own terms rather than imposing one's own culturally bound concepts and theories. Compared to quantitative methods, qualitative research takes a more holistic approach to the research project and studies a phenomenon in its context (Marschan-Piekkari and Welch, 2004). As a Chinese, I have been studying and living in the UK for five years by the time I collected data. Before coming to study in the UK, I worked for Western firm subsidiaries in Beijing, China. These experiences and my knowledge in cultural differences between China and the West place me a better

position to understand the Anglo-Saxon as well as Chinese cultures. Hence, as the only investigator of this research with the training at Cranfield School of Management, I was capable of interviewing both Western and Chinese managers and a holistic view of the phenomena can be obtained.

Forth Marschan-Piekkari and Welch (2004) continue to explain that the case study method is particularly useful when the phenomenon under investigation is difficult to study outside its national settings, as typically occurs in international business research, since researchers are often studying the impact of different national contexts. This is the case for this research. It is impossible to separate the phenomenon from the context of Chinese culture.

### **3.4 Case Study Design**

There is a call for more rigorous case based research from researchers of operations management and supply chain management. A recent article by Seuring (2008) in “*Supply Chain Management*” advocated that in order to ensure the rigor of research on supply chain management using a case study method, it is crucial to conduct case studies in a structured way. In this section, three case study process models are reviewed. One model advocated by Seuring is Stuart et al.’s (2002) five stage process:

- Stage 1: research question
- Stage 2: instrument development
- Stage 3: data gathering
- Stage 4: data analysis
- Stage 5 dissemination

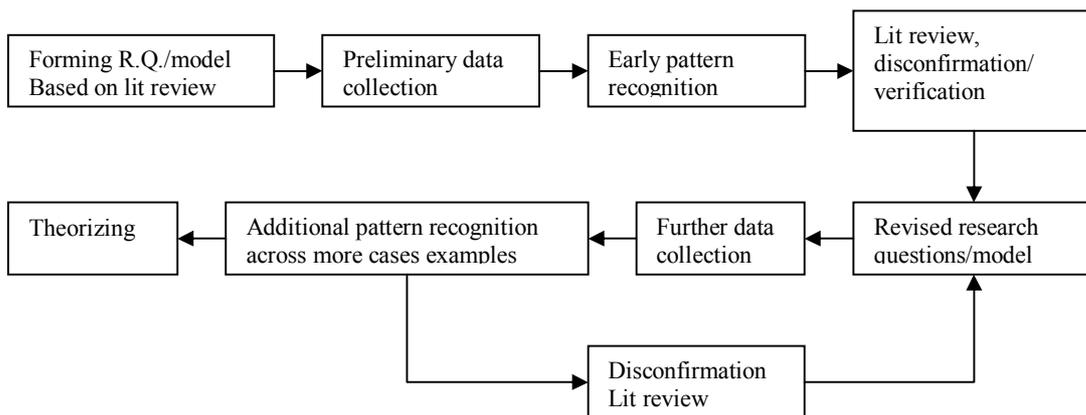
Stuart et al. (2002: 423) claim that the first stage of the research is defining the research question and “all research starts from an examination of existing theory”. Stage two is the development of a research instrument. In case based research, the instrument is the case study protocol. The third stage is collecting data from the field. The researcher’s job is hardly finished when enough data has been collected. In the fourth stage, researchers need to make sense of the data i.e. extract patterns. In the final stage, researchers need to disseminate the research findings.

The second model reviewed is the process or roadmap of building theory from case study research by Eisenhardt (1989b) shown in table 3-2. This process starts with prior constructs, which is a deductive process from theory, to data collection and analysis to comparing with literature, achieving an iterative circle from theory to data and to theory and therefore aligning to Ragin’s (1994) model of retrodution.

Step	Activity	Reason
Getting Started	Definition of research question Possibly a priori constructs	Focuses efforts Provides better grounding of construct measures
Selecting Cases	Neither theory nor hypotheses Specified population	Retains theoretical flexibility Constrains extraneous variation and sharpens external validity
	Theoretical, not random, sampling	Focuses efforts on theoretically useful cases—i.e., those that replicate or extend theory by filling conceptual categories
Crafting Instruments and Protocols	Multiple data collection methods	Strengthens grounding of theory by triangulation of evidence
	Qualitative and quantitative data combined Multiple investigators	Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
Entering the Field	Overlap data collection and analysis, including field notes	Speeds analyses and reveals helpful adjustments to data collection
	Flexible and opportunistic data collection methods	Allows investigators to take advantage of emergent themes and unique case features
Analyzing Data	Within-case analysis	Gains familiarity with data and preliminary theory generation
	Cross-case pattern search using divergent techniques	Forces investigators to look beyond initial impressions and see evidence thru multiple lenses
Shaping Hypotheses	Iterative tabulation of evidence for each construct	Sharpens construct definition, validity, and measurability
	Replication, not sampling, logic across cases	Confirms, extends, and sharpens theory
	Search evidence for "why" behind relationships	Builds internal validity
Enfolding Literature	Comparison with conflicting literature	Builds internal validity, raises theoretical level, and sharpens construct definitions
	Comparison with similar literature	Sharpens generalizability, improves construct definition, and raises theoretical level
Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

**Table 3–2: Process of building theory from case study research (Eisenhardt, 1989b)**

The third model labeled as the research process by Pettigrew (1997) also describes a model for case study shown in figure 3-2.



**Figure 3–2: Research process (Developed from Pettigrew, 1997)**

From these three models, it can be seen that they are not very different from each other (Eisenhardt, 1989b; Pettigrew, 1997; Stuart et al., 2002). This section is structured based on Stuart et al.'s (2002) model for simplicity. However Pettigrew's model explains more explicitly and in much detail because it includes the pilot study stage

indicated by Yin (2003) and emphasizes the iterative nature of the process. This research follows Pettigrew's (1997) research process model. Table 3-3 shows the stages of this research applying Stuart's and Pettigrew's models.

Stages	Objectives	Time
Stage 1: research question	Develop research questions and conceptual framework deduced from theory.	October 2005- February 2007
Stage 2: instrument development	Develop a case study protocol.	March 2007 – May 2007
Stage 3: Data gathering	1. Pilot study 2. Major field work	June to August 2007 May to July 2008
Stage 4: Data analysis	1. Post pilot: refine research questions, conceptual framework, propositions and case study protocol. 2. Post major field work: within and cross case analysis	September 2007 to April 2008  August 2008 to March 2009
Stage 5 Dissemination	4 conferences papers 1 academic journal paper 1 practitioner journal paper PhD thesis Two empirical papers in the pipeline	2007, 2007, 2008, 2009 In press; to be published in 2010 Published in 2008 April to November 2009 Planned for 2010

**Table 3–3: Stages of this case study research (Adapted from Stuart et al, 2002 and Pettigrew, 1997)**

Based on Stuart et al.'s (2002) five stage model, this research is roughly divided into five stages. In the first 14 months, the author reviewed the literature to identify the gaps and developed research question and conceptual framework from October 2005 to February 2007. A case study protocol was developed from March to May 2007 in stage two. Taking consideration of Pettigrew's model, the data were gathered within two periods: pilot study (June to August 2007) and major field work (May to July 2008). Stage four also consists of two periods: post-pilot data analysis, which helped refine the research questions, conceptual framework and developed propositions and data analysis after major field work, which included within and cross case analysis. Individual case reports as well as cross case report were also drafted in this stage.

In stage five, the author mainly wrote up thesis. The research was disseminated through four conference papers, one peer reviewed journal paper to be published in *International Journal of Logistics Management* and one practitioner journal paper published in *Supply Chain Standard*. Two empirical papers are in the pipeline. The outlets for dissemination are detailed in Appendix 1.

### 3.4.1 Role of Theory

Miles and Huberman (1994) claim that using prior theory to guide the data collection saves time and makes it easier for cross case comparison. The conceptual model developed from prior theory is constantly compared with the one emerged from data.

Eisenhardt (1989b: 536) also argues that a priori specification of constructs is valuable because "It permits researchers to measure constructs more accurately. If these constructs prove important, then researchers have a firmer empirical grounding for the emergent theory."

In this research, the prior conceptual model for the main field research was developed from theory and findings from the pilot study. The prior conceptual model development is also the first step of Ragin's (1994) model of theory development.

### **3.4.2 Instrument Development**

#### **3.4.2.1 Research Design Components**

Yin (2003) proposes five components of case study research design leading to a case study protocol each component is detailed in the following paragraphs:

1. The research question
2. Propositions (if any)
3. The unit of analysis
4. The logic for linking data to conceptual propositions and
5. The criteria for interpreting findings

#### *Research questions*

There are three research questions identified for this research:

1. How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
2. How do the mutual benefits achieved relate to the cultural adaptation process?
3. What are the contextual factors affecting the cultural adaptation process?

The first question focuses on the cultural adaptation process i.e. who adapts on which aspect of the three roots cultural behavioural differences and the outcome of the cultural adaptation. The second research question is related to the causal relationship between cultural adaptation and mutual benefits. The third research question developed after the pilot study is related to the relationship between the context to partnerships and the cultural adaptation process.

#### *Propositions*

One preliminary proposition was developed following the literature findings but before the pilot study in relation to the second research question:

*The more both parties adapt culturally, the greater the mutual benefits.*

More propositions are developed in the pilot study and case A analysis chapters, which is the first case analysis chapter detailed in chapter 5.

#### *Unit of analysis*

Harrison (2002) argues that a problem in conducting case study research is where to draw the line, determining the boundary of one's research. The subject of the research is neither a Western buyer nor a Chinese supplier, but the relationship between them. Therefore the unit of analysis is the relational dyads between Western buyers and their Chinese suppliers.

More specifically the unit of analysis of the research is identified as the cultural adaptation measured in terms of behavioural change of the dyadic relationship between Western buyers and their Chinese suppliers in relation to the three root differences between Western forms of supply relationship management and Guanxi. It is the cultural aspect of the dyadic relationship that is the focus of this research.

The selection of the unit of analysis has consequences. First this requires the researcher to collect data from both parties. Second based on the analysis of pilot study data, it seems more likely that the individuals working at the buyer-supplier interface adapt more than those working further away from the interface. In order to test this proposition, informants from individuals both at the interface between Western buyers and their Chinese suppliers and at Western headquarters or subsidiaries were selected. However those at the interface should have better knowledge on the research questions than those who are not.

#### *Logic linking data to conceptual propositions*

The conceptual framework and propositions developed provide a guide for collecting data. More specifically the data collected are about who adapt in terms of three root cultural behavioural differences and the relationship between cultural adaptation and mutual benefits. The findings from the cultural adaptation process are obtained before findings of cultural adaptation's relationship with mutual benefits.

#### *Criteria for interpreting the findings*

Criteria to interpret research findings involve a mixture of insight, detective work and creative leap (Mintzberg, 1979). Strong reliance on quality criteria is also required to ensure that the criteria for interpreting the study's findings are explicit and valid (Miles and Huberman, 1994).

### **3.4.2.2 Case Selection**

Voss et al. (2002) argue that when selecting cases, researchers face three issues: 1) number of cases; 2) Longitudinal or retrospective cases; and 3) sampling. These issues are discussed in turn below.

#### **3.4.2.2.1 Number of Cases**

Perry (1998) claims that there are no precise guides to the number of cases to be included. However taking the constraints of time and funding in postgraduate research, in practice, four to six cases are a reasonable minimum for a serious project. In terms of interviews, a PhD thesis requires about 35-50 interviews.

In this thesis, 39 formal semi-structured interviews have been conducted across four UK/US buyer-Chinese supplier dyads/cases. A number of informal discussions, MSN chats and telephone conversations were also carried out.

#### *Retrospective case*

This research takes a *retrospective* perspective since the subject of the research is a dynamic process and historical data on past cultural adaptation are needed. Pettigrew

(2003: 302) argues that “the past projects the present toward the future in a particular way making some outcomes more likely than others.” Hence understanding change, in this case cultural adaptation requires the understanding of the past of the relationship as well as the both parties.

Miller et al. (1997) claim that retrospective reports are popular tools for learning about the past. Golden (1992) questions the internal validity of retrospective data, however, he claims that “retrospective accounts of past facts or behaviours are likely to be more accurate than accounts of past beliefs and intentions, which are more subjective and perhaps more vulnerable to the effects of cognitive bias and faulty memory” (p855). In this research, the data collected were past facts and behaviours rather than past beliefs.

Huber and Power (1985: 171) state that many studies of strategic management have relied on retrospective reports from managers positioned at the upper echelons of the organization. However the focus of this research is not strategy but cultural adaptation behaviour and therefore it is possible to have multiple respondents in an organization.

#### **3.4.2.2 Purposive and Theoretical Sampling**

This research employs both purposive and theoretical sampling. Devers and Frankel (2000) claim that due to the goal and logic of qualitative research, purposive sampling is often employed. Purposive sampling strategies are designed to enhance understandings of selected individuals or groups’ experiences or for developing theories and concepts. Some information rich cases, which provide the greatest insight into the research questions, should be selected.

Purposive sampling (selective sampling), according to Glaser (1978), refers to the calculated decision to sample a specific locale according to a preconceived but a reasonable initial set of dimensions (such as time, space, identity or power) which are worked out in advance for a study. This is one sampling method used in this research, by which cases were selected based on a set of criteria.

Purposive sampling is related to the logic of literal replication, which means that cases are also selected to predict similar results. Selecting such cases requires prior knowledge of the outcomes, with the multiple-case inquiry focusing on how and why the exemplary outcomes might have occurred and hoping for literal replications of these conditions from case to case (Yin, 2003). The propositions developed based on pilot study in this research are the prior knowledge of the outcome; cases were selected to replicate such result in the major field research.

Yin (2003) also claims that sometimes cases are selected to predict contrasting results for theoretical replication. This is labeled as theoretical sampling by Eisenhardt (1989b), which means selecting cases from both extremes or polar (such as good and bad outcomes). In this research, the author selected two cases with a higher level of cultural adaptation and two with a lower level of cultural adaptation to compare the mutual benefits obtained due to cultural adaptation and this test for a causal relationship between cultural adaptation and mutual benefits.

### 3.4.2.2.3 Case Company Selection Criteria

Yin (2003) claims that multiple case studies are regarded as quasi-experiment in the sense that an experiment can be done in a way an investigator manipulates behaviours. In case study, a number of variables can be selected for the investigator to constrain the environment or context of the case study. This allows researchers to focus on one or two isolated variables. In this case, the isolated variables are cultural adaptation and mutual benefits. Other factors affecting the mutual benefits are identified and constrained as much as possible. This is similar to the use of control variables in quantitative research.

For case selection, it is quite likely that replication studies with different samples from the same population would result in different outcomes (Dul and Hak, 2008). For this reason, it is recommended to identify very small specific populations in which the variation between the cases is much less than in larger population (Dul and Hak, 2008). The five case selection criteria in this study define the population of cases to choose from. Cases are selected from:

- Dyads from manufacturing industry,
- Partnerships,
- Those that Western buyer has a subsidiary/headquarter in the UK or US, which deals with the Chinese supplier identified, and
- Those that Western firms have an IPO (International Purchasing Office) or equivalent in China;
- Those large scale Western manufacturers

The logic of the selection criteria is as follows:

#### *Dyads from manufacturing industry*

All case companies were selected from manufacturing industry. This is because manufacturing has distinct characteristics from service industry; therefore dyads of manufacturing industry may undergo different cultural adaptation process than those of service industry.

#### *Partnerships*

In section 2.5.2 of the literature review chapter, the context of cultural adaptation is confined to that of a close business relationship rather than an arm's length and adversarial relationship because it is more likely for a relationship having developed into partnerships to gain mutual benefits. This also makes it possible for the investigator to compare across cases. Therefore the cases were chosen from those relationships which have already been developed into a partnership.

Mohr and Spekman (1994) propose the attributes of partnerships as commitment, coordination, interdependence and trust. Ellram (1991) defines a purchasing partnership as “an agreement between a buyer and a supplier that involves a commitment over an extended time period, and includes the sharing of information along with a sharing of the risks and rewards of the relationship”.

Based on a synthesis of the two papers, partnership has the following characteristics:

- Commitment over an extended time period (Ellram, 1991)
- Sharing of information (Ellram, 1991)
- Sharing of the risk and rewards of the relationship (Ellram, 1991)
- High level of interdependence (Mohr and Spekman, 1994)
- Compatible goals (Mohr and Spekman, 1994)
- Striving for mutual benefits (Mohr and Spekman, 1994)

*Have a UK/US based subsidiary dealing with the Chinese supplier identified*

Only UK and US based companies were selected to reduce the variation among Western cultures (Pirie, 2007). After reviewing various studies on Chinese value survey, Bond (1996) claims that these studies reveal considerable variation among so-called Western nations, with similarity confined to the broad value of individualism. The people of the United States cannot stand as representatives of a Western position any more than the citizens of other Western countries. Therefore the term of Western culture used in this thesis indicate Anglo-Saxon branch of Western culture.

The cultural distance between Chinese and Anglo-Saxon cultures is great. Pirie (2007) claims that one of the principles that underlie the Anglo-Saxon model of capitalism is the adversarial principle. Central to the British philosophical style has been the notion of conflict. The adversarial principle underlies British philosophy of science, in which the rival theories are tested against each other in the ritual combat of scientific experiment. This principle has been supported by a number of authors (Boyer, 1997; Hutton, 1995). The Anglo-Saxon branch of Western culture seems to be in direct contrast to the Chinese culture, which emphasizes harmony of a society. This fundamental difference is more likely to generate tension between individuals from these two cultural backgrounds.

*Western firms having an IPO or equivalent in China*

In terms of Western buyers sourcing in China, only those which have an IPO (International Purchasing Office) or equivalent in China were selected. Having IPO or equivalent in China proves that first the Western buyer has entered a mature stage of China sourcing (Nassimbeni and Sartor, 2006a); second the purchase scale of the Western firms has justified the presence of an IPO or equivalent (Rajagopal and Bernard, 1993).

*Western firms selected from large-scale manufacturers*

Western firms were selected from large-scale manufacturers simply because these firms tend to be multiple national corporations, which are more likely to have an IPO or equivalents in China and have a longer history of sourcing in China than Small and Medium Sized Enterprises (SMEs) (Nassimbeni and Sartor, 2006a). Forming a partnership takes time; therefore large-scale manufacturers are more likely to form a partnership with their Chinese suppliers.

European Commission categorizes companies with fewer than 10 employees as “micro”, those with fewer than 50 employees as “small”, and those with fewer than 250 as “medium”. Small and medium organizations need to have between 20-500 employees (European Commission, 2003). Therefore Western buyers were selected from those manufacturers with more than 500 employees. In fact, the Western firm of Case C with

the least number of employees among the four Western firms selected employs 2000 people worldwide.

### **3.4.2.3 Case Study Protocol**

A case study protocol is a major way of increasing reliability of case study research and is intended for multiple case studies. In each case, the protocol has to be strictly followed in order for the cases to be comparable. A case study protocol should include the following sections (Yin, 2003: 69):

- An overview of the case study project
- Field procedures
- Case study questions
- A guide for the case study report

A complete case study protocol can be found in appendix 2.

### **3.4.3 Data Gathering**

In-depth semi-structured interviews, observations, documentation and small sample survey are the data collection methods used in this research. A letter stating the purpose and introducing the research project was sent out to each of potential case companies to invite them to participate this research. Sample letters to the case companies are provided in appendix 3. If they show some interest, then a pre-interview questionnaire would be sent. A feature of this research is the use of pre-interview questionnaire. Documentation is used to collect background information of case companies and relationships. A mutual benefits survey was designed to collect data on the mutual benefits perceived among the key informants of the four final cases. A final stage before data collection is a pilot case study. These are discussed one by one below.

#### *Pre-interview questionnaire*

Pettigrew (2003) claims that interviews should ideally preceded by the collection and analysis of historical documents, which are used to establish the core of the chronology of the process and identify key individuals and transition points in the process.

In this research, rather than analyzing historical documents which are not available, a pre-interview questionnaire was designed and sent to each informant prior to interviews. The purpose of the questionnaire was to collect data on the context of the dyads, assess if the relationship had developed into a partnership/commitment stage and test each informant's knowledge of cultural behavioural differences.

Most completed questionnaires were collected before the interviews so that I was able to be familiar with the background of companies and aware of the informant's knowledge on cultural behavioural differences. Few were collected on the same day as the interview. This way saved valuable interview time allowing me to focus on exploring the answers to the research questions themselves.

This was necessary because the informants were normally busy and the interviews were often interrupted with phone calls and so on. Some informants could only concentrate

for less than one hour before being interrupted by other commitments, therefore using the time given efficiently and effectively was crucial to complete the interview questions. The Pre-interview questionnaire can be found in appendix 4.

### *Interviews*

In-depth, semi-structured interviews, which provide a flexible instrument to get into the field (Yin, 2003), were the main method of data collection. Interviews were recorded and transcribed. Since one party of the dyads (Chinese suppliers) use Chinese language, the transcripts were selectively back translated by an expert to compare with the original. The interviews lasted from 45 minutes to 90 minutes. The interview questions evolved during the case research were finalized after about three interviews of the major field work and can be found in appendix 5.

Huber and Power (1985: 175) claim that “if more than one informant per unit of analysis is to be interviewed, choose informants whose unique biases or lack of knowledge are likely to be compensated by those of other informants.” This research adopts a multi-perspective approach and avoids elite-bias (Miles and Huberman, 1994) by drawing on the perspectives of informants at various levels in each party of relationships. Sourcing Managers and buyers were selected as informants for Western buyers. Top management, Middle level managers and operational level employees were selected as informants for Chinese suppliers. The Adaptation process to Chinese culture is also a process of learning, which has to be handled by managers especially expatriate managers stationed in the subsidiaries (Tsang, 1999). Therefore those expatriate managers staying in China for some time and dealing with the Chinese supplier are key informants.

The informants can be categorized into two groups: key informants who work closely with individuals of the other party and at the interface between Western buyers and Chinese suppliers and common informants who are involved in the relationship but do not interact closely with individuals of the other party and work at headquarter/subsidiary based in the West or back offices of Chinese suppliers. The key informants include Western purchasing/procurement managers, based in China or traveling frequently to China, who should be the best informed with respect to the research questions, Chinese sourcing managers and buyers in the IPO of Western firms, top management and Account Managers of Chinese suppliers. Involving top management in the Chinese suppliers as interviewees is essential because China is a hierarchical society and top management, normally also owner of the Chinese private enterprise, tends to control their companies as much as they can. A list of all the informants of this project can be found in appendix 6.

The reasons to interview back office or headquarter individuals of Western firms and Chinese suppliers are three folds: first some of the access is obtained from headquarters or subsidiaries based in the U.K; second these individuals based in the West can provide background information on their companies and the relationship; third it was postulated after the pilot study that only those individuals at the relationship interface will adapt culturally. Therefore if those individuals based further away from the interface i.e. those working at headquarters or back offices are proved not to adapt culturally, it provides additional evidence to support this proposition.

Semi-structured interviews should be “designed to have a number of interview questions prepared in advance but such questions are designed to be sufficiently open that subsequent questions can not planned in advance but must be improvised in a careful and theorizing way (Wengraf, 2001: 5).” In particular, he continues, an interviewee is asked to tell a story. These biographic-narrative interviews are of considerable interest in their own right. Wengraf (2001) also indicates three categories of data: discourse, objective referent and subjectivity. Discourse is the mode of talk spontaneously chosen by the subject. Objective referent refers to the objective facts to which individual informants were a witness. Subjectivity however is a term for describing “permanent or transient” characteristics of the subject who is acting as informant. It is the latter two categories of data of interest.

In this research, I am interested in the “fact” i.e. who adapted and when and also the individuals’ role in the adaptation process (subjectivity). Subjectivity sometimes consists of theorizing by the informant about the phenomena under study. For example, the construct of hybrid culture was theorized by the Purchasing Director of Western Buyer B.

#### *Documentation*

Document analysis provides further mode of data collection. Documents include two categories: specific documents and contextual documents (Miles and Huberman, 1994).

1. Specific documents refer to those directly relevant to the topic of the research such as contracts, company reports related to supplier management, company publications and memoranda.
2. Contextual documents encompass company brochures, data from the internet, case studies database, which provide an understanding of the company background and hints from possible broad differences or similarities between two parties of the partnership. This allows for triangulation of information gathered from interviews.

No specific documents were secured during the field research. Cultural adaptation process is difficult to codify in formal documents and tend to exist as the form of tacit knowledge of the individuals working at the buyer-supplier interface. Contextual documentation is however used to provide background on the case companies and the relationship.

#### *Observation*

The author spent several months in these companies and direct observation of the sites is useful to understand the context, within which members of the supply relationship were interacting. During my stay on site, I formed relationships with people on an informal basis and accompanied individual buyers/Sourcing Managers of IPOs to visit their Chinese suppliers.

The direct observations of informants’ responses and interview sites, informal discussions with informants and reflections were documented in the field notes (Miles and Huberman, 1994). A sample of the field notes can be found in appendix 7.

### *Survey*

A questionnaire was designed to collect information on the informants' perception of mutual benefits obtained from the partnerships at the time when the research was conducted in 2008. The survey questionnaire was presented to the interviewee at the end of the interview and the interviewee either filled it out on site or afterwards returned it to me by email. All the key informants except for the Purchasing Director of Western Buyer B and the President of Chinese Supplier B filled out the questionnaire. These two individuals declined the request because they claimed that they are very busy and would rather leave it to their subordinates. The total number of key informants is 23 and the survey achieved a response rate of 91%. The mutual benefits questionnaire can be found in appendix 8.

### *Pilot study*

Yin (2003) made a distinction between pilot test and a pre-test within the pilot study and stressed that pilot test is more formative assisting researchers to develop research question and conceptual framework and refine research design.

The pre-test and pilot test together formed the pilot study performed during summer 2007. The research questions and the initial conceptual model were shown to a number of reputable academics in relevant area for evaluation. Some initial interviews were conducted with managers of a number of Western firms, three of which later became the Western buyers of case A, B and C. In order to explain the process more explicitly, a chapter of pilot study is devoted after this one.

## **3.4.4 Data Analysis**

There are two main steps in data analysis: analysis within case data and analysis across cases to search for patterns. They are explained below.

### **3.4.4.1 Within Case Analysis**

Some of the techniques used in within case analysis are presented in Table 3-4.

<b>Techniques for case analysis</b>	<b>Explanation</b>	<b>Representation</b>
Chronologies	Narratives of the events that took place organized by date	Case diary and field notes
Coding	Sorting data according to concepts and themes	Coding list
Clustering	Categorizing cases according to common characteristics (size, the best and worst)	Cluster contextual variables
Matrices	Explaining the interrelationship between identified factors	This has been used extensively in within and cross case analysis
Pattern matching	Comparison between a predicted and an empirically based pattern	This has been used in within case analysis

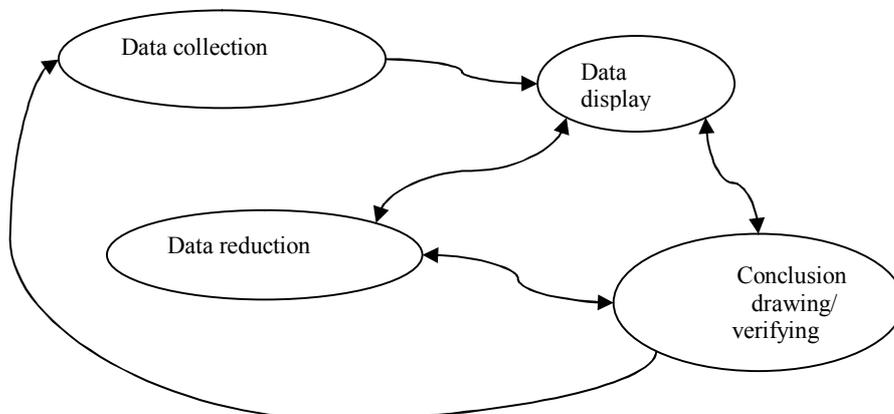
**Table 3-4: Case Study analysis techniques (Adapted from Ghauri, 2004)**

An iterative and cyclical process characterizes the interaction between data collection and the three components of data analysis: data reduction, data display and conclusions drawing (Miles and Huberman, 1994) (Figure 3-3). The ongoing data collection, analysis and collection cycle of iterative induction and deduction is consistent with the retroductive research logic adopted in this research. The approach to coding in this research has been determined by the epistemological stance of critical realism, a blend of a priori and inductive methods. For example the trend of cultural adaptation was found by inductive method and the causal relationship between cultural adaptation and mutual benefits is a priori. A list of codes can be found in appendix 9.

Data reduction refers to the process of selecting, focusing, simplifying, abstracting and transforming the data that appear in written-up field notes or transcripts. This approach sharpens and organizes the data in preparation for conclusion drawing and verification. The reduction activities consist of coding, writing summaries, and identifying themes and clusters (Miles and Huberman, 1994). In this research, transcripts and field notes were selected, focused and simplified based on the conceptual framework.

Data displays are another technique used in within case analysis and allow data organized and condensed in a way that permits conclusion drawing. They also help the researcher see patterns. The process of writing up conclusions calls for further analytic moves in the data displays, which in turn drive further conclusions. Data reduction and data display are iterative throughout the data analysis stage of the research. The process also includes re-coding, which means revisiting the previously developed codes to make necessary adjustments and modifications in order to reflect the reality (Easterby-Smith et al., 2002). In this research, data displays using matrices have been adopted.

The third type of analysis is conclusion drawing and verification. Conclusions should not be drawn too early but in the late stages because cause and effects may not be the same as research progresses thus avoiding premature conclusions (Miles and Huberman, 1994). In this research, the cause and effects relationship was drawn after all the data were analyzed and all the factors, events and outcomes identified. In the case selection section, it was mentioned that this research takes a retrospective perspective. When doing data analysis, Miles and Huberman (1994: 147) claim that “assessing causality is essentially a retrospective matter” and that researchers should be historians writing history of events in order to determine cause and effect.



**Figure 3–3: Components of data analysis: interactive model (Miles and Huberman, 1994)**

### 3.4.4.2 Cross Case Analysis

The aim of cross case analysis is to explore patterns across cases (Ragin, 1987), enhance generalizability, and deepen understanding and explanation (Miles and Huberman, 1994). As Miles and Huberman (1994: 176) suggest, a mixed strategy for cross case analysis is employed in this research. This strategy refers to “the writing of each case using a more or less standard set of variables and then stacking the matrices from each case in a meta matrix, which is further condensed, permitting systematic comparison.” A meta matrix is produced in the cross case chapter of this thesis.

Because the unit of analysis of this research is the processes of cultural adaptation in a dyadic relationship, a model of process analysis is adopted.

#### *Process analysis*

Since cultural adaptation is a process, it is logic to apply analysis model specifically for process. Van de Ven (1992) claims that a theory of process consists of statements that explain how and why a process unfolds over time. Such a theory is needed not only to ground the conceptual basis of a process study but also to guide the design and conduct of empirical research.

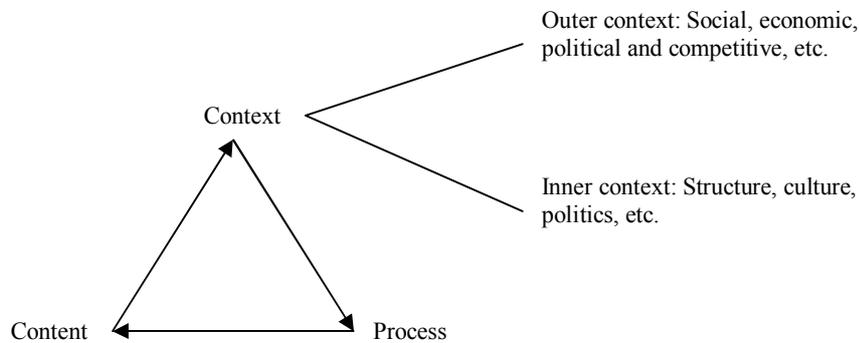
More explicitly, Langley (1999) argues that process research is concerned with understanding how things evolve over time and why they evolve in this way and process data consists mainly of stories about what happened and who did what and when. These are events, activities and choices ordered over time. The analysis of process data therefore “requires a means of conceptualizing events and of detecting patterns among them” (Langley, 1999: 592).

Based on Van de Ven’s (1992) definition, Pettigrew (1997:338) defines process as “a sequence of individual and collective events, actions and activities unfolding over time in context.” The driving assumption behind process thinking is that social reality is not a steady state but rather a dynamic process. So time and history are at the centre of any process analysis. Pettigrew (2001) states that this view of continuous change process contrasts with a view of change as movement from one state to another. There is a distinction and debate between episodic and continuous change. Episodic change tends to be infrequent, discontinuous and intentional while continuous changes are ongoing, evolving and cumulative (Pettigrew, 2001).

He continues to argue that there are five guiding principles for procedural research (Pettigrew, 1997):

- 1 Study processes across a number of levels such as firm, sector and economy.
- 2 Study the processes in past, present and future time.
- 3 Explain outer (economic, social and political) and inner context ( firm structure, culture and politics)
- 4 Search for holistic rather than linear explanation of the process.
- 5 It is necessary to link processes to outcomes.

Pettigrew (2003) proposes a model to analyze process data (Figure 3-4). Content here represents the *what* of change or the outcome of change; the *how* of change can be translated into an analysis of process; and the *why* of change is based on the study of the inner and outer contexts.



**Figure 3–4: A broad framework for understanding change (Pettigrew, 2003)**

This framework illustrates how change happens as a circle from context, to process to content. Content (outcomes) can then become part of the context which influences further processes and outcomes. In this research, the process and content are the main areas under investigation while the context was constrained. Pettigrew’s unit of analysis is in the organizational level but here it is at inter-organizational level. From this perspective, this research extends Pettigrew’s process analysis from organizational level to an inter-organizational dyadic level. Cultural adaptation is considered to change continuously rather than at discrete point in time. It is ongoing, evolving and cumulative.

In this research, Pettigrew’s (2003) change management model has been adopted in cross case analysis and is aligned with the ontology of reality as a concrete process i.e. organization as adaptive agents. The process is that of cultural adaptation; content is the outcome of cultural adaptation i.e. mutual benefits and a hybrid culture. Outer and inner contextual variables have also been collected. Hence this model indeed links the three elements together.

Finally, Eisenhardt (1989b) suggests, an essential feature of theory building from case study research is comparison of the emerging concepts, theories or hypothesis with the literature. This involves asking what is similar to, what is conflicting and why. In this research, the final findings are compared with extant literature in the conclusion chapter. The research must be built on existing theory and it is important to address literature that conflicts with the findings (Voss et al., 2002).

#### **3.4.4.3 The Use of NVivo Software**

In this research, qualitative data analysis software NVivo 7 has been used to analyze data from the pilot study and Cases A & B only but was not used in Cases C & D. NVivo software allows storage and retrieval of the qualitative data, coding, memo, sorting and searching facility (Bazeley, 2007). Transcribed interviews have been analyzed using NVivo software. Before identifying patterns, categories of meaning relevant to the study must be identified and defined. Categories also referred to as nodes

can represent constructs, processes, people, actions or any other ideas relevant to the research.

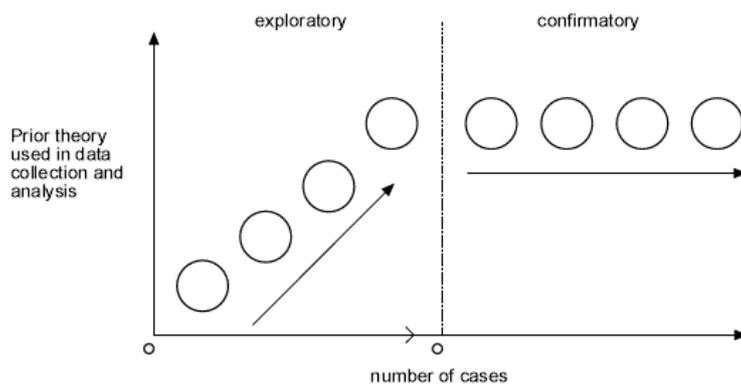
The key features of NVivo are: first the ability to review the properties, memos in the process of coding allows an iterative process of comparing and revising the priori model with the empirical data; second the immediate access from the coded text, stored in the nodes to the full interview transcript provide a way to go back and forth (Miles and Huberman, 1994); third researchers can easily set up link between nodes with sets (find out trends), query (finding co-coded text) and relationship (build direction or association between nodes) (Bazeley, 2007). It is my experience that the feature of easy storage and retrieval of qualitative data make the iterative process between theoretical model and data reduce the researcher's workload before the conceptual model, propositions and codes become stable.

The software was used for pilot study and the first two cases (Cases A & B) analyzed not for Cases C & D because one of the weaknesses for NVivo 7 identified is that if one codes and then edits the text using the software, the coded sentences may be displaced. That is to say the software only codes the position of a sentence in the transcribed interviews not the text itself; therefore the coding may be misaligned if the transcripts are edited in the software.

Another reason why the author did not use the software for Cases C and D is that the software alienates the researcher from the data (Kelle, 1997) inasmuch as the researcher's attention may focus on the tool rather on the analysis. If the researcher analyze manually, she or he can put the printed transcript together but the software can only open one window at a time, making it difficult to compare. Hence many researchers only use the tool partially (Welsh, 2002).

Based on the experience of the author, the software is also not designed for process data analysis, which requires straightforward tabulation in order to draw conclusion easily. The researcher has to code several levels in the software, which is not a straightforward way of presentation.

NVivo is said to be more efficient when used doing the inductive or exploratory stage of case study research (Perry, 1998). Figure 3-5 shows that the left hand side is more inductive or exploratory approach and the right hand side shows a confirmatory approach to case study research (Perry, 1998). This is also one of the reasons for me to use the software in the pilot study and the first two cases.



**Figure 3-5: A comparison of two case study research propositions: a purely inductive position (left hand side) and a preferred position (a blend of left hand and right hand sides) (Perry, 1998)**

### 3.4.5 Criteria for Judging Qualitative Research Design

The case study method has been stereotyped as a relative weak social science method; however, Yin (2003) argues that this stereotype may be wrong in that we have misunderstood its strength and weaknesses. Case studies can be rigorous and four tests have been used to establish the quality of any empirical social research including case studies (Yin, 2003).

#### 3.4.5.1 Four Validity Tests

Yin (2003) states that four tests have been commonly used to establish the quality of any empirical social research. These are summarized in table 3-5.

Test	Case study tactic	Implementation
Construct validity	<ul style="list-style-type: none"> <li>• Use multiple sources of evidence</li> <li>• Establish chain of evidence</li> <li>• Have key informants review draft report</li> <li>• Back-translation</li> </ul>	Semi-structured interviews, observation & document Yes Only some of the informants agreed to do this. Mutual benefits questionnaire was back translated by an academic. Quotes were selectively back translated by an academic and compared with the original Chinese transcript.
Internal validity	Do pattern matching	Compare the findings with propositions. The findings of causal relationship between cultural adaptation and mutual benefits were compared with the proposition
External validity	Use replication logic	Literal replication: similar results Theoretical replication: contrasting cases
Reliability	<ul style="list-style-type: none"> <li>• Use case study protocol</li> <li>• Develop case study database</li> </ul>	Yes Each case database includes a diary, field notes, transcripts, recording, and pre-interview and mutual benefits questionnaire for each informant.

**Table 3–5: Case study tactics for four design tests (Adapted from Yin, 2003)**

- 1 Construct validity: refers to the establishment of correct operational measures for the concepts being studied. This is achieved through triangulation i.e. multiple sources of information in this research.
- 2 Internal validity: refers to the establishment of a causal relationship. This is achieved by comparing the findings (cause effects relationship between cultural adaptation and mutual benefits) of within case analysis with the propositions related to the second research question.
- 3 External validity: refers to the establishment of the domain to which a study's findings can be generalized. This is achieved by using multiple case study method (a replication logic), a theoretical framework as a template against which research findings within and across cases are compared and a clearly defined contextual scope and research boundaries.
- 4 Reliability: refers to the demonstration of the operations of a study can be repeated with the same results. This is achieved by using case study protocol. The use of clearly specified conceptual and theoretical variables within this research increases the extent to which the procedures are reliable.

### **3.4.5.2 Role of Triangulation**

Yin (2003) argues that a major strength of using case studies is that they provide an opportunity to use different sources of evidence. Triangulation means collecting information from multiple sources with the aim of corroborating the same fact or phenomenon. In this research, multiple sources of evidence are employed to ensure construct validity and are only one of four ways of triangulation. The four types of triangulation are listed below (Yin, 2003):

- By source of data,
- By different investigators,
- Of perspectives to the same data set (theory triangulation); and
- Of methods (methodological triangulation)

As this is a PhD project, which requires the work to be done by the candidate independently hence multiple investigators are not permissible. There is no alternative theoretical framework, which could explain the phenomena therefore triangulation of perspectives is not applicable. Two types of triangulation have been applied in this research: by source of data and of methods.

#### *Triangulation by sources of data*

According to Yin, there are six sources of information: documentation, archival records, interviews, direct observations, participant observation and physical artefacts. The author has not found any documentation and archival records related to the cultural adaptation of the dyads, because this is tacit knowledge; therefore triangulation by documentation is not applicable to this research. The process can not be observed unless this is a longitudinal study requiring much greater commitment in terms of personnel, time and finance, for example this may requires the researcher to stay in China for more than six months. Due to the financial constrains of PhD projects, longitudinal case study is not practical.

However the investigator did observe the settings of the companies visited, responses of the informants and meetings between buyers and suppliers. These provided evidence to triangulate findings from the interviews.

The kind of observation employed in this research is direct observation as opposed to participant observation distinguished by Yin (2003). Direct observation refers to the objective way of observation while participant observation requires researchers to assume a role within a case study subject and may actually participate in the events being studied. An observational protocol is recommended as part of the case study protocol. In this research, only informal direct observations were made because not all the cases allowed me to observe the meetings between the buyer and the supplier. I could only informally observe the responses of the interviewees and in some occasions the informal meetings between buyers and suppliers.

Eisenhardt (1989b) claims that a key approach to limit the bias of interviews is using numerous and highly knowledgeable informants who view the focal phenomena from diverse perspectives. This is achieved by interviewing people from different levels within each party of the dyads and also obtaining different perspective from both parties of the dyads about the same phenomenon. One of the features of this study is to triangulate the information on cultural adaptation from different levels of personnel from both parties of the relationship. To be exact, this should be not considered triangulation but 'corroboration' (Eisenhardt, 1989b), because it does not fall into any of the types of triangulation. However this is a very important way to validate the findings.

#### *Triangulation of methods*

The second type of triangulation used in this research is that of methods. Both quantitative and qualitative data have been collected to answer the research question on the relationship between cultural adaptation and mutual benefits. The data collected through these two methods can triangulate with each other to reach more valid findings.

Regarding the research mixing qualitative and quantitative methods, Jick (1979) claims that where there is a convergence of findings using multi-methods, confidence grows as a result. However where divergent results emerge, alternative and likely more complex explanations are generated. Qualitative data and analysis function as the glue that cements the interpretation of multi-methods result. Qualitative methods in particular, are problematic to replicate.

### **3.5 Chapter Summary**

This chapter starts by explaining the two extremes of research philosophies and has outlined the critical realist philosophical stance taken, which stands in between the two extremes. The reason for choosing this philosophical stance is also provided as the author is from China and is deeply influenced by the 'mean' thinking of Confucianism. A more specific ontological stance of seeing reality as a concrete process under the critical realism and a retroduction logic associated with critical realism is also taken.

The chapter then moves on to explain why multiple case studies are chosen as the research methodology for this research and have explained the rationale for the research design. Within the research design section, a 5-stage research process, which includes forming the research questions, developing research instruments, data collection, data analysis and dissemination is outlined and used as the structure of that section. However a more detailed research process model (Pettigrew, 2003) is adopted in this research. Then each of these elements of research design is articulated. Finally the quality criteria of case study method have been discussed in relation to this research. In particular, this research applies two types of triangulation to ensure the validity of the findings: triangulation by sources of data and triangulation of methods. In the next chapter, the thesis moves on to examine the development of the conceptual model.

## **Chapter 4 : Pilot Study**

### **4.1 Introduction**

Yin (2003) claims that the final preparation for data collection is the conduct of a pilot case study. The aim of the pilot study in this research was first to test and refine the conceptual framework by consulting with reputable academics before testing the case study approach in a pilot test with three Western firms currently sourcing in China.

In this research, due to the constraints of time and finance, the pilot study did not include a complete case. This is because I did not have time to get access to Chinese suppliers in China in the summer of 2007. However the pilot study conducted helped a great deal in narrowing down the research scope, developing the research questions, conceptual framework, propositions, as well as developing the case study design. This is the reason for devoting a chapter to report the pilot study.

This pilot chapter consists of two parts: 1) pre-test of the conceptual framework with reputable academics outside Cranfield School of Management (Section 4.2); and 2) pilot test with a number of informants across the three Western firms currently sourcing in China (Section 4.3). The initial conceptual framework developed before the pilot study and introduced in the literature review chapter was refined by integrating advice from academics during the pre-test. This revised conceptual model (the second version) was then used for the pilot test and again refined by integrating findings from the pilot test. This third version of the conceptual framework is the final version adopted for the main field research (figure 4-2). Section 4.4 presents a third research question, which was identified after the pilot study relating to the context to a partnership. In section 4.5, indicators for the three levels of cultural adaptation (understand, adjust and learn) and the case of no adaptation are identified and synthesized from literature. Section 4.6 draws lessons learnt from the pilot study. Section 4.7 summarizes the chapter.

The pre-test and part of the pilot test were conducted both in the UK and in China during the summer of 2007 after the initial case study protocol was produced. The rest of the pilot test was conducted in the summer of 2008.

### **4.2 Pre-test Study**

This section consists of two parts: first the advice provided by four academics is summarized; second the advice is transformed into actions to revise the initial conceptual framework before presenting the revised second version of the framework.

#### **4.2.1 Description of the Pre-test**

Yin (2003) describes pre-tests as a dress-rehearsal in which the intended data collection plan is used as faithfully as possible; the pilot test is more formative, assisting one to develop lines of questions and even providing some conceptual clarification for the research design.

The author consulted with a number of reputable academics whilst attending the IACMR (International Association for Chinese Management Research) PhD Dissertation Proposal Development Workshop held in Guangzhou, China in June, 2007. Among them, two Chinese American professors provided valuable comments that were later integrated into this research. Two Chinese professors of Fudan University, one of the top three universities in China, were also consulted to validate the conceptual model and research questions when the author was in Shanghai. Table 4-1 lists the names of the four professors, their affiliations, specialties and the advice given.

The first two professors are Chinese Americans and are regarded as world experts on the topic of Guanxi. They suggested that a multiple case study methodology is appropriate for this research since the nature of it is exploratory. One valuable point on data collection by Prof. Luo, Yadong is that the researcher should ask informants to give examples to illustrate their points thus providing more in-depth data. He also suggested that the contribution will be tremendous if the researcher can discover the adaptation process of partnership between Western buyers and their Chinese suppliers. As for mutual benefits, he suggested reviewing the literature on qualitative relationship measurements rather than attempting to use hard measures.

Professor Chen, Chao-chuan commented that the nine cultural behavioural differences identified should be condensed because the conceptual model would be far too complex with so many variables. Based on this comment, three root differences between Guanxi and Western forms of supply relationship management were integrated and summarized from the nine cultural behavioural differences (Jia and Rutherford, 2007). Professor Chen also suggested that I should tell the whole story of cultural adaptation i.e. investigating not only the problem caused by cultural differences but the cultural adaptation process.

Professor He, Xiyou from Fudan University specializing in international business in relation to China and foreign direct investment in China confirmed the second and the third root cultural behavioural differences between China and the West as: 1) laws and regulations can not be fully enforced in China due to the pervasiveness of Guanxi network whereas they can be effectively implemented in the West; and 2) the relationship building processes are different in that Chinese tend to build trust before any transactions take place, while in the West trust is built as a result of successful transactions. Therefore it is difficult for Westerners to do business in China if they do not adapt. The first difference, which indicates the difference of collectivism in China and individualism in the West, was not identified by him but by other academics detailed in the literature review chapter.

Professor Zhu, Daoli suggested that I should ask interview questions following a time sequence so that the questions align with the model of the relationship evolving process adapted from Dwyer et al. (1987) i.e. explore, expand and commitment.

Academics	Title and Affiliation	Specialization	Advice given
Prof. Yadong Luo	Emery M. Findley, Jr., Distinguished Chair, School of Business, University of Miami	1.Strategic Management, 2.International Joint Ventures 3.Management in transition / emerging economies 4. Guanxi	1. Use relationship measures for mutual benefits. 2. Ask informants to give examples to illustrate their points.
Prof. Chao C. Chen	Professor in Management of Rutgers Business School, The State University of New Jersey	1. Cross-Cultural Management 2. Reward Allocation 3. Leadership 4. Guanxi	1. Reduce and integrate the differences between Guanxi and Western forms of supply relationship management. 2. Focus on cultural adaptation and tell a whole story of it.
Prof. Xiyou He	School of Economics, Fudan University	1. International Business and Strategy 2. Foreign Direct Investment (FDI) in China	Confirm two of the root differences between Guanxi and Western forms of supply relationship management.
Prof. Daoli Zhu	Director of Logistics Department, School of Management, Fudan University	1. Maritime logistics 2. Supply chain management	Ask interview questions following the sequence of relationship evolving process.

**Table 4–1: Academics consulted in the pre- test study in the summer of 2007**

#### 4.2.2 Refined Conceptual Framework for the Pilot Test

Integrating these advices into the initial conceptual framework detailed in the literature chapter, the author took four actions to revise it and the case study protocol. First the number of cultural behavioural differences was reduced from nine to three root differences through integration. Second qualitative relationship measures were reviewed and then replace the hard measures in the initial conceptual model. Third the interview questions used in the pilot and main study followed the relationship evolving process. The third action was taken to revise the semi-structured interview questions in the case study protocol.

Forth this research tells a whole story of cultural adaptation by explaining not only the differences between Guanxi and Western forms of supply relationship management but also the cultural adaptation process and its outcome. The forth action was taken later in the development of the third and final version of conceptual framework detailed later in this chapter because at this stage the meaning of this advice was of fully appreciated.

The revision of the initial conceptual framework led to the refined conceptual framework for the pilot test shown in figure 4-1. The cultural adaptation process (Lin, 2004) is the same and the causal relationship between cultural adaptation and mutual benefits have also been indicated. The first action to change the initial conceptual framework to the revised one in figure 4-1 was to synthesize the nine cultural behavioural differences into three root cultural behavioural differences detailed in section 2.2.3.2 of the literature review chapter. The three root cultural behavioural differences are identified as the knowledge inputs into the cultural adaptation process.

In section 2.5.2 of the literature review chapter, the following measures are identified as qualitative partnership performance measures and are here chosen as measures for mutual benefits to be achieved by both parties in the refined conceptual framework for

the pilot test. The second action was replacing hard measures in the initial conceptual framework with the qualitative relationship measures in the revised model.

- Cost reduction benefits (Myhr, 2001)
- Relationship effectiveness (Myhr, 2001)
- Flexible adaptation (Myhr, 2001; Angerhofer and Angelides, 2005)
- Collaboration (Myhr, 2001)
- Trust (Myhr, 2001; Walter et al., 2003)
- Guanxi quality (Chen and Chen, 2004)

The measurements for each of the six items are listed in the mutual benefits questionnaire in appendix 5.

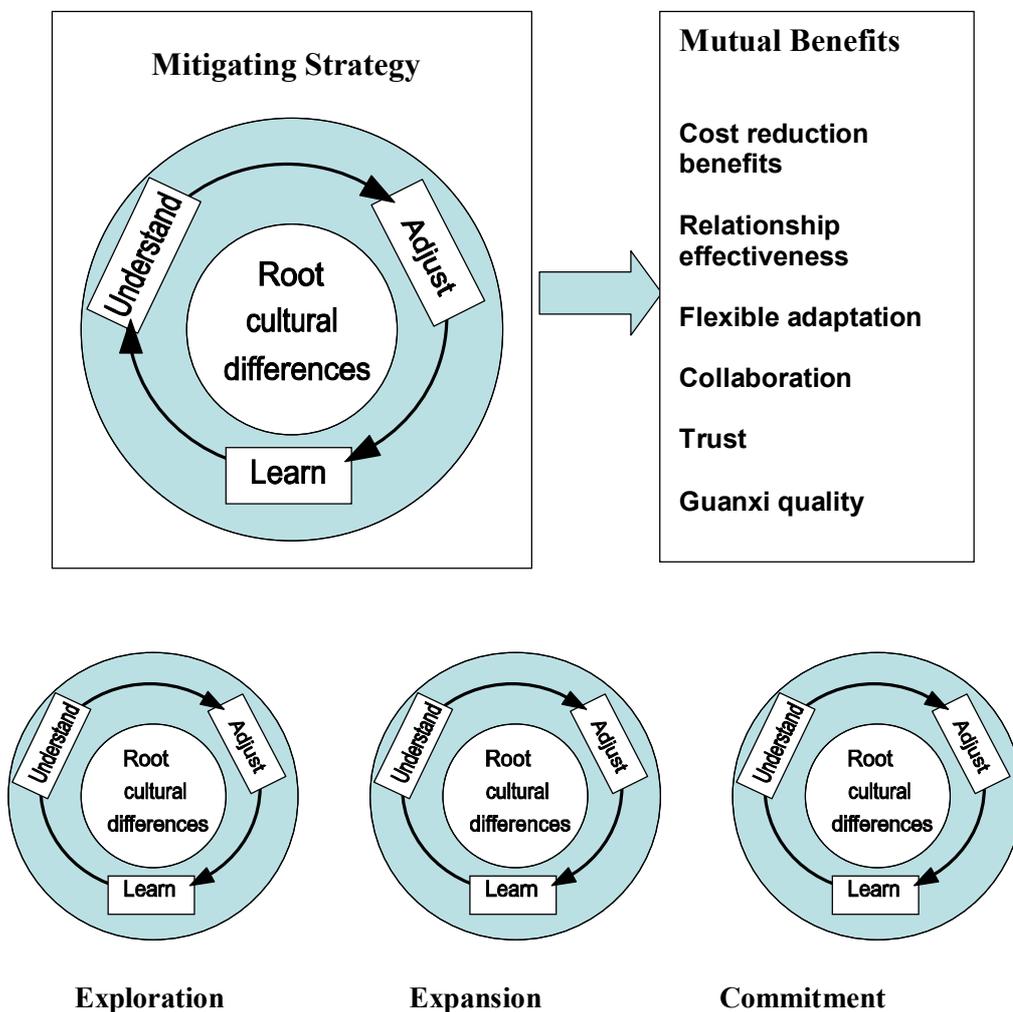


Figure 4-1: Revised conceptual framework for the pilot test

### 4.3 Pilot Test

The aim of the pilot study is first to develop the conceptual model further; second to develop a number of propositions, third refine interview questions, forth select cases for major field research. In the following sections, the details of the pilot test is described; the initial findings of the pilot study are presented; the next steps after the pilot study are discussed; and the revised final conceptual framework integrating the findings from the pilot test is presented.

#### 4.3.1 Pilot Test Description

21 practitioners cross 11 Western companies and two Chinese suppliers were interviewed during the summers of 2007 and 2008. The conversations generally improved my understanding of the issue under study. Three out of the 11 Western firms were finally selected and carried forward to the major field research (table 4-2).

The informants in table 4-2 include a Senior Buyer of pilot case A, a Purchasing Director, a Supplier Development Manager and a Material Planner of pilot case B, a Sourcing Director and a Senior Buyer of pilot case C. Due to the time limit, the author did not get the chance to interview personnel from Chinese suppliers during the summer of 2007. The pilot cases A, B & C later became part of case A, B & C in the main field research because they were proved to fit with the case selection criteria.

Companies carried forward to main field research	Informants	Note
Western firm IPO of pilot case A	Senior Buyer	This case was negotiated access through the Senior Buyer.
Western firm UK subsidiary and IPO of pilot case B	Supplier Development Manager & Material Planner (UK) Purchasing Director (IPO)	This case was negotiated access through a Cranfield alumni working in the UK subsidiary of this Western firm.
Western firm China Sourcing Team (CST) of pilot case C	Sourcing Director (CST) Senior Buyer (CST)	This case was obtained access through Supply Chain Risk Forum run by the Demand Chain Community at Cranfield.

**Table 4–2: List of companies and interviewees carried forward to be part of the main field research**

Table 4-3 shows a list of companies contacted and then rejected. The interviews with these companies generally provided some understanding of the sourcing process of Western firms in China and helped refine the interview questions; however the data from the interviews were insufficient to draw any conclusions therefore rejected.

The interviews for the two cases-Great Star and Brady were conducted during summer of 2008 and also considered a part of the pilot test because they helped refine the interview questions for the main field study. Great Star was rejected because the Chinese supplier identified by Great Star was not cooperative to the research; therefore limited data were obtained. Brady was rejected because the company does not belong to manufacturing industry.

<b>Companies rejected in 2007</b>	<b>Informants</b>	<b>Note</b>
YUM China, Shanghai, China	Senior Logistics Manager	University of Birmingham alumni
Tektronics, Shanghai, China	Sourcing Manager	A friend of mine
PWC Shanghai, China	Senior Manager in Sourcing	Cranfield alumni
LANXESS Shanghai, China	Senior Buyer	Introduced by a friend of mine
Volvo (China) in Shanghai, China	Department Project Coordinator	Introduced by Senior Manager of PWC, a Cranfield Alumnus
Homebase, Shanghai IPO, China	Sourcing Manager	Introduced by Cranfield alumni
<b>Companies rejected in 2008</b>	<b>Informants</b>	<b>Note</b>
Great Star/ZhengXing (Chinese supplier), Hangzhou, China	Sourcing Director, QA Manager (UK) Sourcing Director, Buyer (IPO) President (ZhengXing)	Were conducted prior to the major field research in 2008.
Brady (IPO)/Junbi (Chinese supplier), Shanghai, China	Market Develop Manager, China Sourcing Manager, Sourcing Project Manager, Marketing Manager (Junbi)	Were conducted prior to the major field research in 2008

**Table 4-3: List of companies rejected from the pilot test**

As a result of the pilot study, the research questions and conceptual framework have been revised and stabilized, however the interview questions revised after the second review were not piloted. The revised interview questions were then piloted with these two cases conducted during the summer of 2008 and prior to the major field research. After the pilot with these two cases, the interview questions have been kept the same for the four final cases.

#### **4.3.2 Initial Findings from the Pilot Test**

The data from the interviews with pilot cases A & B in the pilot test were analyzed and initial findings are presented in this section. The reason for no findings from pilot case C is because one of their Chinese suppliers was not identified by the pilot case C and the research questions are related to Western buyer- Chinese supplier relationships; therefore the data collected are insufficient to make any conclusions.

Based on the analysis of the pilot test data from a number of interviews with pilot cases A & B, initial results were obtained. Table 4-4, an initial data display matrix, summarizes the findings from the pilot case A. Following Miles and Huberman (1994), a time-ordered matrix is employed to display the time-ordered data. The columns are arranged by time period i.e. exploration, expansion and commitment. The rows are the three root cultural behavioural differences.

The findings in table 4-4 came from the interview with the Senior Buyer of pilot case A. The quotes and more detailed analysis is shown later in the chapter of Case A Analysis. It can be seen that with the evolution of the relationship from exploration toward commitment: 1) both parties tended to ‘adjust’ to each other in terms of family orientation vs. self interest; 2) the Western buyer of this case tended to ‘learn’ Guanxi network; the Chinese supplier of this case tended to ‘adjust’ to multiple institutions; 3) The Western buyer of this case tended to ‘learn’ the Guanxi relationship building process, while the Chinese supplier of this case only ‘understood’ Western relationship building process but did not adapt; 4) It also can be seen that with the level of cultural

adaptation increase, the mutual benefits also increase. Although there was no data for the exploration stage, based on the data from expansion and commitment, tentative conclusion was made that the higher the level of cultural adaptation, the greater the mutual benefits.

It is expected that the level of cultural adaptation is lower in the exploration stage than that in the expansion and commitment stages although there were no data collected to support this. The level of cultural adaptation in the expansion stage is the same as that in the commitment stage for most processes, while there were no mutual benefits perceived in the exploration stage, some were perceived at the expansion stage and commitment stage. In the commitment stage, the level of adaptation stayed the same while mutual benefits were perceived. It seems that cultural adaptation always precedes perceived mutual benefits indicating a probable causal relationship between them.

<b>differences</b> \ <b>Stages</b>	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
Family orientation vs. Self interest	No data collected	CS: Adjust WB: Adjust	CS: Adjust WB: Adjust
Guanxi network vs. Multiple institutions	No data collected	CS: Adjust WB: Adjust	CS: Adjust WB: Learn
Guanxi relationship building vs. Western relationship building process	No data collected	CS: Understand WB: Learn	CS: Understand WB: Learn
<b>Mutual Benefits</b>	No mutual benefits	Cost reduction Familiar Guanxi Flexible adaptation	Relationship effectiveness Trust Collaboration

**Table 4-4: Data display matrix**  
(CS: Chinese Supplier; WB: Western Buyer; NA: No Adaptation)

The judgment on whether they achieved the ‘understand’, ‘adjust’ or ‘learn’ is based on the definition provided by Lin (2004) at this stage detailed in section 2.4.2 of literature review chapter. Table 4-5 shows the pattern of the cultural adaptation process in terms of the three root differences.

<b>differences</b>	<b>Trends</b>
Family orientation vs. Self interest	Both parties tend to adjust to each other.
Guanxi network vs. multiple institutions	Western buyers tend to learn Guanxi network featured by harmony within hierarchy; and Chinese suppliers tend to adjust to multiple institutions.
Guanxi relationship building vs. Western relationship building	Western buyers tend to learn Guanxi building process; and Chinese suppliers tend not to adapt to Western relationship building process but understand it.
<b>Mutual Benefits</b>	With the relationship evolves and toward the commitment stage and the level of cultural adaptation increase, mutual benefits tend to increase as a result.

**Table 4-5: Summary table for interpreting data display matrix**

The findings of the pilot test lead to the following propositions:

*P1:* As a relationship develops toward commitment stage, both parties of a West-China partnership adjust to each other in terms of family orientation vs. self interest.

*P2:* As a relationship develops toward commitment stage, Chinese suppliers tend to adjust to Western buyers in terms of multiple institutions. Western buyers tend to learn Guanxi network featured by harmony within hierarchy.

*P3:* As a relationship develops toward commitment stage, Western buyers tend to learn Guanxi relationship building process. Chinese suppliers tend to understand Western relationship building process.

From findings shown in table 4-4, the cultural adaptation is two way and bilateral rather than one way. Iyer (2002) finds that unilateral learning gradually gives way to mutual learning. The initial findings support this argument. It is therefore proposed that:

*P4:* The cultural adaptation process is bilateral.

One of the important findings from the pilot case B was that a higher level construct referred to here as the “Hybrid Culture” emerges as the relationship evolves and cultural adaptation takes place. The pilot test findings suggested that a hybrid culture formed between Western buyers and their Chinese suppliers as a result of cultural adaptation and also that it is not the whole company that adapts culturally but those individuals working closely with each other at the interface between Western buyers and Chinese suppliers. According to the Purchasing Director of Western firm’s IPO of pilot case B:

*“Combining Guanxi with Western methodology and procedures, you will have the formula to success. Combining the best of the West and China produces a win-win situation.”*

He also stated that his colleagues based in the West do not understand the cultural differences because they do not need to. However, individuals working for the IPO in China understand and adapt to Chinese culture.

After the hybrid culture construct emerged, I went back to the literature looking for hybrid models and concepts. A number of models, which suggest a “hybrid concept have been found; these are reviewed later in this chapter.

Related to the “hybrid culture”, it is proposed that:

*P5:* The combination of P1, P2, and P3 creates a hybrid culture resulting in increased mutual benefits for the partnership.

*P5a:* Those individuals who work closely with the other party and at the interface adapt culturally.

Propositions 1-3 state that the whole company adapts to the culturally, however in case B and later major field research, it was found that only those individuals at the interface adapt culturally. These propositions were revised later in case A.

#### **4.3.3 What to do next?**

Miles and Huberman (1994) claim that it is easy to fall into the trap of premature closure, a feeling of rightness that is grounded falsely-especially because early data collection is usually partial, flawed and simplistic in some important respects. In the next step, it is important for the author not to be trapped into the tentative findings from the pilot study but to be open to deeper and fuller explanations emerging from future data. A constant comparison between emergent findings and literature is also needed.

First of all, a more comprehensive conceptual framework is needed that incorporates the findings from the pilot study including the advice given by outside academic experts and the construct of hybrid culture.

Second in case A of the major field work, I should revise and develop the propositions further since the data collected in the pilot test was still incomplete.

#### **4.3.4 Revised Conceptual Framework for Main Field Research**

After the emergence of a hybrid culture concept, I reviewed the models related to this concept in the literature, which were then integrated into a more comprehensive conceptual framework-the final conceptual model for the main field research. The forth action mentioned in section 4.2.2 to change the initial conceptual framework was taken at this stage by integrating the hybrid cultural concept to form a complete model of cultural adaptation.

Bory and Jemison (1989) propose a hybrid theory which focuses on the boundary of hybrid arrangement, shared norms and values and also permeability (to what degree, do the shared norms or adapted culture permeate into the partner organizations). This paper, from a focal company's perspective, attempted to define the boundary of a hybrid i.e. "which resources and obligations belong to and which do not" (p235). However it does not focus on the relationship itself.

Wilson (1995) builds on Dwyer et al.'s (1987) five-stage framework and introduces the concept of a hybrid relationship derived from the IMP Group's concept of atmosphere, which is defined as "various combinations of environmental, company specific and interaction process characteristics and is the product of the relationship" (Hakansson, 1982). The hybrid culture is "a composite of the cultures of the buying and selling firms which straddles the space between buyers and suppliers with a unique blend of the cultures of the firms" (Wilson, 1995: 340). This concept is relevant and forms the basis of this research.

In the context of international joint venture, Graen et al. (2004) propose a "Third Culture Bond" (TCB) model, defining the third culture as "a culture in which the different cultural backgrounds of the organization or group members are synthesized

into a new culture that is acceptable to members”. The third culture is a mix of the business partner’s cultures whereby the partners become cultural ‘insiders’, however, when two cross cultural business partners remain ‘strangers’ to each other then the third culture does not develop. What Graen et al. (2004) describes is a mix of national cultures.

Roper and Weymes (2007) draw together three phenomena: a loss of legitimacy of Western business practices which emphasise individual competition in a market based society; an increase in the demand for corporate social responsibility and a rebuilding of social capital; and the emergence of Chinese multinational corporations which retain the ancient values to dominate in a global society. They propose that the East and West can develop hybrid models of business that can build social capital by incorporating the Confucian philosophical values to the Western concept of social well-being and social capital. This is especially valid for international partnership.

From above, it can be concluded that although the idea of a hybrid or mixed culture is not new, the literature does not describe the process of transformation from cultural stranger to cultural insider. Nevertheless, if we consider Francis’s (1991) definition of cultural adaptation, the implication is that a hybrid culture forms as a result of the behavioural changes of interacting individuals from each organisation. Graen and Hui (1996: 68) describe these individuals as Trans-culturalists defined as those “who grow beyond their own cultural socialization so that they can understand different cultures with minimal bias and make valid cross-cultural judgments”.

The conceptual model of cultural adaptation (figure 4-2) presents cultural adaptation as a supply chain relationship mitigation strategy leading to a mutually beneficial partnership between a buyer and a supplier of different national cultures. The author extends this model recognising that cultural adaptation between individuals working closely with the other party and operating at the buyer-supplier interface occurs during the relationship building process and that successful cultural adaptation will lead to a Hybrid Culture which is defined as (Jia and Rutherford, 2010):

A mutually beneficial composite culture that exists at the interface between a buyer and a supplier of different national cultures and that is the result of the cultural adaptation of those individuals who work closely with each other and operate at the interface.

Taking this concept of a Hybrid Culture into account, a comprehensive conceptual process model is presented (figure 4-2), which describes its creation by combining the conceptual model of cultural adaptation based on Lin’s (2004) cultural adaptation process with the three-stage relationship evolving process model adapted from Dwyer et al. (1987), Graen and Wakabayashi (1994) and Iyer (2002).

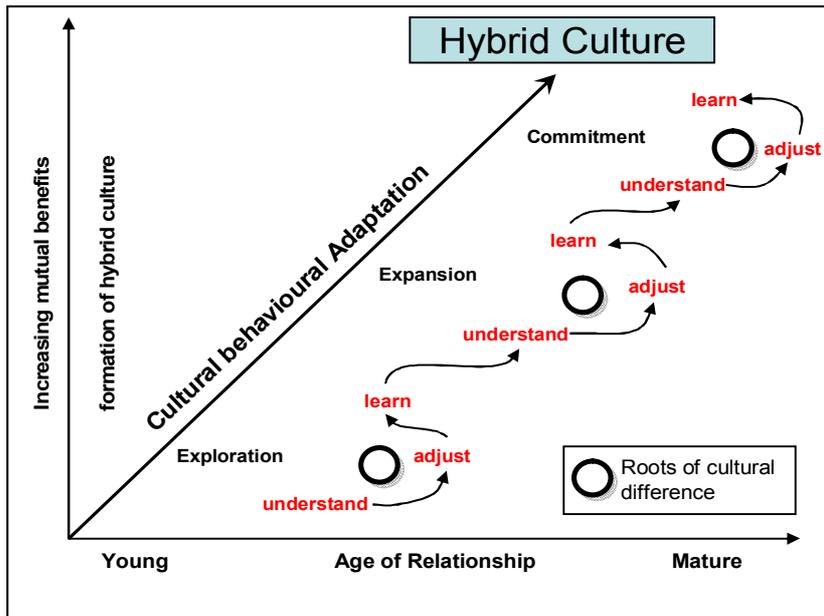


Figure 4–2: Conceptual framework for the main field research

As a relationship evolves from young to mature or from exploration to commitment, individuals who work closely with the other party and at the organisational interface engage in the cultural adaptation process, this process involves cultural behavioural convergence as members of each culture attempt to become behaviourally more similar to members of the other culture (Francis, 1991), creating a Hybrid Culture that has mutual benefits for the supply chain partnership. The cultural behavioural convergence is only possible if the individuals at the interface have the capacity to become ‘trans-cultural’, i.e. to grow beyond their own cultural socialisation.

#### 4.4 Identification of the Third Research Question

After the pilot study, Pettigrew’s (2003) process analysis model was considered an appropriate tool for cross case analysis since it helps identify the cross case patterns on the relationship between cultural adaptation (process), mutual benefits and hybrid culture (content), and context to partnerships. It is the context that is missing in the conceptual framework (figure 4-2). In this section, a literature review on the context of partnerships is first reviewed and followed by the identification of the third research question related to context of partnerships.

##### 4.4.1 Context to Partnerships

Pettigrew (2003: 302) claims that “the past projects the present toward the future in a particular way making some outcomes more likely than others” and proposes a change management model based on this argument. The model states that processes are influenced by the context they are in and distinguish the context as outer and inner.

The outer context is related to the political, economic social and technical environment that the partnership or firm operates in. The inner context relate to the structural, cultural and political influences on the process of change within partnerships. Adapting to this research, Cultural adaptation of partnerships is the process; the outer context

refers to those influencing factors outside the partnerships; the inner context refers to those factors influencing within the partnerships. In this section, the contextual variables influencing the partnership success are reviewed.

Discussing the issue of environment or context, the first framework normally recognized by people is PEST analysis, which stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. However since the dyads selected in this research are constrained to those between American/British buyers and Chinese suppliers within a manufacturing industry and the cultural adaptation behaviours occur mainly in China; the influences of political, economic, social and technological factors on the dyads are therefore essentially the same. Hence there is no need to conduct a PEST analysis in this research.

Lin (2004:37) claims that "cultural adaptation may be conditioned by various factors, the relationship between both parties provides a fundamental context in which adaptive behaviours occur." In the following, various factors affecting partnerships are reviewed.

Arino et al. (2005) propose the concept of relational quality as an alternative to inter-organizational trust and define it as the extent to which the principals and agents of alliance partners feel confident in dealing with their counterparts' organizations. According to them, there are four elements that contribute to relational quality: initial conditions, negotiation and transaction processes, partner interactions and external events. Relational quality is the outcome variable and the four elements are antecedents to the success of partnerships.

Since negotiation and transaction process are not the focus of the research, they are disregarded. External events contain three levels: systemic, corporate and individual. Systemic refers to broad event i.e. industry and country level changes affecting all firms. This can be considered under the framework of PEST analysis, therefore also disregarded. These events are considered the antecedents to the dyadic relationship. The corporate level is considered and discussed in detail below. Individual level is not the focus of this research and therefore disregarded.

Claycomb and Frankwick (2004) propose four contingency variables affecting the buyer-supplier relationship to a different extent in each stage of the relationship development process: 1) duration of a buyer-supplier relationship; 2) importance of a relationship to a supplier; 3) size of the buying firm; 4) prior experience of an individual buyer.

Synthesizing the factors proposed by Arino et al. (2005) and Claycomb and Frankwick (2004), the following contextual factors were selected for data collection.

Outer contextual factors include:

- Size of each party: this is measured in terms of turnover and the number of employees of each party.
- Prior experiences: this is measured in terms of whether or not each party had trading experience with a company from opposite culture.

In addition, ownership of Chinese suppliers that has not been discussed in the literature is considered an outer contextual variable and emerged from the interview with the Purchasing Director of pilot case B. He stated that:

*“We have a lot of suppliers in China. There are spectrums of five categories of supplier we are working with. The first one is multiple nationals (Bosch, Siemens and Motorola). We need this kind of suppliers. We got to pay what we have to pay for the global prices. The next one down is going to be joint venture 50:50. They are predominantly Chinese but there are 1 or 2 expatriates. They have access to technology from abroad. They pay license agreements and pay technology fees, so the prices are still high but not as high as the former. There is another category here. I will call Asian investment. This is South Korea, Taiwan and Japan manufacturing in China. Then you have Chinese private companies. This is the sweet box. This could be state owned enterprises moved to private owned by shareholders. It could be local shareholders. Eventually they will go, just like xxx [the Chinese supplier identified and labeled later as CS-A], to Shenzhen Stock Exchange, so become public listed. Many of our suppliers have developed into public listed companies. The one in the bottom, we have got State Owned Enterprises (SOE). So in the direction from bottom to top, we have got technology. In the direction from top to bottom, we have got lower price. There is difference between price and cost. Price is the amount of money you pay for the product. The cost is the amount of money you pay for the product plus the money you pay for replacing it if there are any problems with it within the life cycle of the product. The SOE provides the lowest price but the quality might be poor with 15% of crap. So the exported 15% of those parts are going to stop the engine line in xxx [UK subsidiary’s name]. All that disruption cost, because the line stops and waits for new parts. So the guys will have a cup of tea and wonder why we buy all these parts from China.”* (Purchasing Director, pilot case B)

Based on what the Purchasing Director stated, I draw a diagram below to illustrate the spectrum of suppliers in China (figure 4-3). As he claimed, from top to bottom, lower price can be expected. From bottom to top, more advanced technology can probably be obtained. The first three categories on the top are not the focus of this research according to the case selection criteria. It is however interesting to know which one of the two, Chinese state-owned and private owned suppliers adapt better culturally. Therefore the ownership of Chinese suppliers is added to the list of outer contextual variables.



**Figure 4–3: A spectrum of suppliers in China**

We do not know whether the specific manufacturing industry play a role in influencing cultural adaptation, therefore it is added to the list of outer contextual variables.

According to the interview with a Senior Buyer from the pilot case C, she felt that the distance between her company and the Chinese supplier identified hindered the cultural adaptation. Therefore the geographic location of Chinese suppliers is added to the list of outer contextual variables.

Inner contextual factors include:

- Duration of the relationship
- Importance of a relationship: this is measured by percentage of the purchase in the Chinese supplier's turnover (importance to Chinese suppliers) or whether the products they source from their Chinese suppliers are critical parts (importance to Western buyers), frequency of visits to each other and senior management involvement. Critical parts indicate those hard to find in the market.

As the concept of trans-cultural is introduced earlier in section 4.3.4 of this chapter, it is interesting to know whether there are trans-culturalists in the case companies; whether these trans-culturalists play a role affecting cultural adaptation process of the company and whether the nationality of the employees of Western buyer's IPOs matter in the cultural adaptation process. I therefore label this factor as the structure of IPOs.

Among the contextual factors, prior experiences, the industry the relationship is in and ownership of Chinese suppliers belong to initial conditions, one of the four elements that contribute to relational quality (Arino et al., 2005). In table 4-6 below, a list of contextual variables are listed. In the main field research, data on the inner and outer contextual variables were collected and compared in the cross case analysis presented in chapter nine.

<b>Outer contextual variables</b>	<ul style="list-style-type: none"> <li>• Size of the each party</li> <li>• Prior experiences</li> <li>• Ownership of Chinese suppliers</li> <li>• In which specific manufacturing industry</li> <li>• Distance between a Western buyer's IPO and its supplier</li> </ul>
<b>Inner contextual variables</b>	<ul style="list-style-type: none"> <li>• Duration of a relationship</li> <li>• Importance of a relationship to each party</li> <li>• Structure of IPOs</li> </ul>

**Table 4–6: Contextual variables**

#### **4.4.2 The Third Research Question**

Although some authors (Arino et al., 2005; Claycomb and Frankwick, 2004) propose the factors affecting partnership success, it is not clear whether these factors also affect the cultural adaptation process. The **third research question** is therefore expressed as:

*What are the contextual factors affecting the cultural adaptation process?*

#### **4.5 Indicators for the Three Levels of Cultural Adaptation and No Adaptation**

Results from the pilot study were presented to faculty at Cranfield School of Management. Some constructive criticism revealed the need for detailed behavioural indicators which measures each level of cultural adaptation. The aim of this is to make

the data analysis process explicit and transparent. In this section, the literature on indicators for the three levels of cultural adaptation and no adaptation is reviewed and they are then integrated and adapted for this research. These indicators are used to judge whether IAAs have reached 'understand', 'adjust' or 'learn' or do not understand and adapt at all in later case analysis.

Haslberger (2005) claims that for over a decade, many cross-cultural adaptation studies have looked at a three-fold of adjustment initially proposed by Black (1988, 1990), who has conceptualized cross-cultural adjustment as one's level of psychological comfort with the three aspects of general culture, daily life, and work and interaction of the assignment. The three aspects are measured by 11 items of behaviours, which measure how adjusted an individual is. However this study is criticized for measuring adaptation on an adjusted-unadjusted range and did not differentiate the stages of adaptation (Haslberger, 2005).

From a psychological perspective, the Developmental Model of Intercultural Sensitivity (DMIS) proposed by Bennett (1993) provides elements for observation that can serve to diagnose the position or stage of an individual on the matter of cultural differences (table 4-7). The first three stages (denial, defense and minimization) are indeed a process toward the understanding of cultural differences. The fourth stage is acceptance, which literally means individuals accept the difference, but does not necessarily mean agreement or liking. The fifth stage is adaptation, in which simple recognition of cultural differences is insufficient to guide behaviours. In this stage, it is important for adapted behaviour to emerge because it 'feels right', not because 'that is how one is supposed to act'. One should know the range of appropriate behaviour at this stage. The sixth and final stage is integration, which denotes that people in this stage can maintain a meta-level identify that provides a sense of coherence to one's experience. They can always "look down" on events, which do not mean they are disengaged but that they are intentionally flexible in their movements among cultural contexts. These individuals are labeled as bicultural, which is not different to the concept of 'trans-cultural' (Graen and Hui, 1996).

It is not difficult to see that the acceptance stage is similar to 'understand' level of Lin's (2004) cultural adaptation process, adaptation to 'adjust' level, and integration to 'learn' level. People in the first three stages in DMIS model do not understand the cultural differences well therefore they are combined and labeled as 'no adaptation' in this research. The indicators of each stage are judged to be relevant or irrelevant to this research later in this chapter. The indicators that measure psychological attitude are judged as irrelevant because this research is focused on behaviours.

Early and Peterson (2004: 109) argue that it is important aspect of adjustment adopting the behaviours consistent with a target culture and this mimicry is engaging in actions that put people from another culture at ease and comfort. Lin (2004) also claims that both parties need to make adjustment to match the other party's behaviour or style, which may involve a temporary shift in frame of reference and consequent actions that are more appropriate to the other's culture than one's own. These definitions are regarded indicators for 'adjustment' in this research.

<b>Stage 1- Denial (deny difference)</b>	<b>Relevant?</b>
• Don't believe in cultural difference.	No
• People who behave differently don't know any better.	No
• Tend to impose their own value system on others, knowing that they're right and other people are confused.	No
• Think they behave in a natural and normal way; different ways are wrong and misguided.	Yes
• Not threatened by cultural differences because they don't accept them.	No
• Generally have had limited contact with people different from themselves, and have no experiential basis for believing in other cultures.	No
<b>Stage 2- Defense (accept but demonize differences)</b>	
• Have had indication that their value system may not be absolute-and they are not happy about it.	No
• Believe in cultural differences and have accepted reality of it, but are deeply threatened by it.	No
• Believe that other cultures are decidedly inferior.	No
• Know better than to try to impose their values on others, but view other cultures negatively and prefer to have little or no contact with those who are different.	No
<b>Stage 3- Minimization (trivialize difference)</b>	
• Still threatened by difference so they try to minimize it, but they don't think those who are different are inferior, misguided or otherwise unfortunate.	No
• Believe that differences are real but not especially deep or significant.	No
• As different as people are, they are still more similar than dissimilar.	Yes
• We may be different on the surface, but underneath we share many of the same values and beliefs.	No
<b>Stage 4- Acceptance (neutral about difference)</b>	
• Accept difference as deep and legitimate.	Yes
• Know other people are genuinely different from them and accept the inevitability of other value systems and behavioural norms.	Yes
• Still may find some of these behaviours hard to deal with or accept, but are not threatened by them, and don't judge them as wrong or bad.	No
• Don't normally adopt many of these behaviours themselves, or adjust their own behaviours to be more culturally sensitive, but are tolerant and have a sympathetic attitude.	Yes
• Neutral about cultural difference	Yes
<b>Stage 5- Adaptation (difference is positive thing)</b>	
• Behaviour changes as well as attitudes	No
• Willing and able to change their own behaviour to conform to different norms	Yes
• Able to empathize with people from different cultures	No
• They do not give up their own or birth culture's values and beliefs but they do integrate aspects of other cultures into it.	No
<b>Stage 6- Integration ( I can become different and still be me)</b>	
• Become bicultural, effortless adjusting behaviour to suit the culture of the people they're with-"style switching".	Yes

**Table 4-7: A developmental model of intercultural sensitivity (Bennett, 1993)**

Building on Kolb’s (1984) experiential learning theory (ELT), Yamazaki and Kayes (2004) summarize behaviour indicators of competencies for successful cross-cultural adaptation/learning for expatriates shown in table 4-8. These indicate successful cultural adaptation and therefore are used for indicating that the IAAs have reached the ‘learn’ level of cultural adaptation.

Learning skill dimension	Cross-cultural competency cluster	Behavioural indicator	Relevant?
Interpersonal	Building relationships	Interact with others regularly, particularly members of the host culture	Yes
	Valuing people of different cultures	Express interest and respect for host culture, including its history, customs, beliefs and politics	Yes
Information	Listening and observation	Spending time observing reading about and studying host culture, particularly with locals	Yes
	Coping with ambiguity	Maintains work habits in the face of unexpected events, new experiences or unfamiliar situations	No
Analytic	Translating complex information	Translates personal thoughts into language of host culture	No
Action	Taking action and initiative	Takes action when appropriate, even when outcomes is uncertain	No
	Managing others	Takes responsibility for accomplishing tasks related to the organizational goals	No
Adaptive	Adaptability and flexibility	Demonstrates acceptance of change, setbacks and challenges	No
	Managing stress	Maintains work habits during times of personal and environmental crisis, or in the face of heavy emotional demands	No

**Table 4–8: Behavioural indicators of competencies for successful cross-cultural adaptation for expatriates**

These indicators are the ones for the successful cultural adaptation of expatriates and need to be adapted for this research. The action and adaptive dimensions and coping with ambiguity of information dimension are excluded for measuring the level of ‘learn’ because first they are not specifically for cross cultural adaptation; second they measure individual psychological cognition rather than behaviours, which is not the focus of this research. The analytic dimension is also excluded because this is not a measure of behaviour.

Adapting and integrating the concepts and indicators from the articles reviewed (Black, 1988; Bennett, 1993; Early and Peterson, 2004; Lin, 2004; Yamazaki and Kayes, 2004), a list of behavioural indicators to differentiate ‘no adaptation’, ‘understand’, ‘adjust’ and ‘learn’ is shown in table 4-9. In Bennett’s (1993) model, a bicultural is considered an individual who has reached the highest level of cultural adaptation.

#### **4.6 Lessons Learned from the Pilot Study**

The context of this research is the partnership between a Western buyer and a Chinese supplier. Eckhardt (2004) claims that engaging in qualitative business research in China has many challenges. One of the most prominent challenges is gaining a thorough cultural grounding in the lived experience of the people under investigation. To do this, a general understanding of some of the nuances of Chinese culture and psychology is needed. In China, Westerners are often seen as high in the social hierarchy simply by virtue of being from the West, even by Chinese business elites.

Cultural adaptation	Distinct character	Behavioural indicators
No Adaptation (NA)	Do not understand cultural behavioural differences represented by denial and minimization of cultural differences.	NA1: Think they behave in a natural and normal way; different ways are wrong and misguided. NA2: As different as people are, they are still more similar than dissimilar.
Understanding (U)	Understand and accept the cultural behavioural differences.	U1: Understand another culture on its own terms. U2: Show one's understanding of the cultural behavioural differences. U3: Cultural differences are acknowledged and accepted. U4: Do not normally adopt many of these behaviours of opposite culture or adjust their own behaviours to be more culturally sensitive but are tolerant and have a sympathetic attitude.
Adjusting (A)	Require a level of adjustment for smooth interaction. Mimic behaviours of other cultures.	A1: Adopting the behaviours consistent with a target culture reactively because they 'feel right'. A2: Temporary shift behaviour more appropriate to the other's culture however may feel uncomfortable interacting with the other party. A3: Interact with the other party if needed only. A4: Use knowledge of opposite culture without realizing it.
Learning (L)	Make a conscious effort to integrate elements of the other culture into one's own	L1: Use knowledge of opposite culture proactively. L2: Interact with personnel of the opposite culture regularly and willingly. L3: Express interest and respect for the other party's culture spending time observing reading about and studying the other party's culture. L4: Become bicultural, effortlessly adjusting behaviour to suit the culture of the people they are with-style switching.

**Table 4–9: Behavioural indicators for 3-level of cultural adaptation and no adaptation**

Because of the high social hierarchy of Chinese societies, subordinates do not want to say anything negative about their superiors. In this research, when informants of Chinese nationals working in the Western firms were asked about the cultural adaptation of their Western managers, they tend to downplay the negative aspects of it; therefore data may be inaccurate. The author should be aware of this when analyzing the data.

Because of the group orientation of Chinese people, people feel much more comfortable opening up when they are in a group. This could be a method to use when interviewing informants from Chinese suppliers. However, it is notable that Chinese psyche is typically very interdependent. Chinese do not want to “offend” others verbally when they are together and tend to consider other’s attitude, feelings and actions and then act accordingly. Therefore the focus group method may not work so well (Eckhardt, 2004). It is better to ask questions that are not linked to specific persons in the group in the focus group and ask questions related to specific individuals in the individual interview situation.

A group orientation also implies that if one is a member of the out-group, it is notoriously difficult to break into the strictly defined in-groups in China (Eckhardt, 2004). In this research, it is crucial for the researcher to be an in-group member before getting the “true story” for the adaptation process. Because of the time and financial constrain of the field research, it requires me to become an in-group in a comparatively short period of time. This was achieved by building a close relationship with one of the key informants for each Chinese supplier so that this individual can introduce me to others in the Chinese supplier. Others can not reject me in order to save this key informant’s face.

Eckhardt (2004) argues that China is characterized by holistic thinking, meaning that respondents do not typically speak in a straightforward and logic manner. The researcher had to jump back and forth of the interview questions. Thus being flexible in terms of implementation of an interview protocol becomes important.

Ideally the local research partner will be fluent in English as well as local language and also a qualitative methods specialist. This helps not only to ensure the smooth communication during the interview but to assist with the interpretation of the data thanks to the researcher’s local cultural background (Eckhardt, 2004). My understanding of Chinese language, culture and the qualitative research method training I received mean that I did not need a local research partner.

Marschan-Piekkari et al. (2004) suggest collecting data in both headquarters and subsidiary units to avoid “methodological separatism”, meaning the tendency to study either headquarters or subsidiary units but not both. It may obscure an understanding of the complexity of MNCs (Multinational Corporations). The foreign subsidiary unit may have a different perception of the researcher to that held by the headquarters and treat researchers as VIPs; therefore providing additional interview opportunities. For example, I was well treated by the China Sourcing Team of pilot case C because I was introduced by its headquarter. In this research, informants were selected from both

Western subsidiary/headquarter and Western firm's IPO in China to avoid the methodological separatism.

One category of elite interviewees in MNCs consists of the expatriate specialist or manager who often possesses large informal networks spanning different countries and units and can answer questions from the viewpoint of both headquarters and subsidiary (Marschan-Piekkari et al., 2004). Expatriates managers were purposely selected if available because first they normally know both headquarters and local subsidiary well; second their cultural adaptation process represent the cultural adaptation process of the Western firm better than Chinese nationals working for Western firms.

One of the lessons learnt from the pilot study is that Western and Chinese informants should be dealt with differently. Westerners in the UK and China were easier to communicate with than the Chinese interviewees and answer the interview questions in a straightforward manner. Despite being a Chinese, I found that Chinese interviewees however answered questions in a detoured manner and sometimes avoided questions at all. To solve this problem, the researcher had to ask the informants the same question in different ways.

There are differences between Westerners based in the West and in China. Due to the tough competition and higher social status in China, Westerners form a different working style in China from the one they work in the West in that they tend to treat Chinese in a hierarchical way. Westerners based in the UK generally tend to treat people equally.

#### **4.7 Chapter Summary**

In this chapter, an evolution of the conceptual framework is presented. The initial conceptual framework introduced in the literature review chapter was first revised by integrating the advices from reputable academics second by integrating the hybrid culture concept emerged from the pilot test. Four actions transformed from the advices are first replacing the hard measures with qualitative relationship measures; second synthesizing the nine cultural behavioural differences to three root cultural behavioural differences; third following the relationship evolving process when interviewing, which resulted in the change in the relevant part in the case study protocol; fourth telling a whole story of cultural adaptation. This last action was taken after the pilot test by integrating the hybrid culture concept into the revised conceptual framework for the pilot test, which in turn resulted in a final conceptual framework for the main field research.

The final conceptual framework illustrates that as a relationship evolves from young to mature i.e. from exploration to commitment, individuals who work closely with the other party and at the organisational interface engage in the cultural adaptation process, this process involves cultural behavioural convergence as members of each culture attempt to become behaviourally more similar to members of the other culture (Francis, 1991), creating a Hybrid Culture that has mutual benefits for the supply chain partnership. The three cultural behavioural differences are identified as the knowledge inputs into the cultural adaptation process.

After the pilot study, it was decided that the Pettigrew's (2003) process analysis model is applied in the cross case analysis, a third research question is then identified as "what are the contextual factors affecting the cultural adaptation process?" Data of the contextual variables are to be collected in the main field research.

Therefore the three research questions of this research are:

1. How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
2. How do the mutual benefits achieved relate to the cultural adaptation process?
3. What are the contextual factors affecting the cultural adaptation process?

Among them, the first research question is related to explore the process of Pettigrew's process analysis model; the second research question is related to the relationship between cultural adaptation process and the mutual benefits (content/outcome). The third research question is to identify the contextual factors affecting cultural adaptation process.

After the pilot study, it was found that more detailed indicators to judge whether key informants have reached 'no adaptation', 'understand', 'adjust', and 'learn' are needed, therefore a literature review was conducted and a list of indicators are identified.

In the end, a number of lessons learnt from the pilot study have been discussed and were later proved to be valuable and the learning points were closely followed through the major field research.

The next chapter is the first case analysis chapter of case A. The propositions developed in this chapter will be tested and developed further in the next chapter.

# **Chapter 5 : Case A Analysis**

## **5.1 Introduction**

The first case (case A) analyzed was developed from the pilot case A, which included an interview with a Senior Buyer of Western buyer A of this case, who provided rich information about the background and the cultural adaptation process of its relationship with Chinese supplier A. This particular case allowed for a further development of propositions developed from the pilot study.

The structure of this chapter is as follows:

Section 5.2 provides the background information of Western buyer A, Chinese supplier A and the relationship between them. Then the findings of the cultural adaptation process are discussed in section 5.3, which directly answers the first research questions. In section 5.4, the relationship between cultural adaptation and mutual benefits is tested, which answers the second research question. Section 5.5 summarizes the chapter.

## **5.2 Contextual Considerations**

This section first describes the background of Western buyer A and Chinese supplier A, providing the outer context to the cultural adaptation process. Then the relationship between Western buyer A and Chinese supplier A, which serve as the inner context to the cultural adaptation process, is described.

### **5.2.1 Western Buyer A**

Western Buyer A (WB-A), a leading industrial company, headquartered in Washington D.C., designs, manufactures and markets innovative products, services and technologies with strong brand names and significant market positions. WB-A's business activities encompass four reporting segments and are comprised of six strategic platforms: Medical Technologies, Professional Instrumentation (Environmental, Electronic Test), Industrial Technologies (Motion, Product ID, Focused Niche Businesses) and Tools & Components (Mechanic's Hand Tools).

WB-A is a fast growing business with annual turnover of over 10 Billion dollars and a 1.5 billion free cash flow in 2007 and a growth of 14% over previous year in terms of revenue. Its gross profit reached five billion with a profit margin of 46% in 2007. It is one of the fortunes 500. China is the company's fastest growing as well as the biggest overseas market in the world. The company employs 50,000 people worldwide.

The focus of this study is the Motion department of Industrial Technologies platform of WB-A. The Industrial Technologies platform contributes 29% of the total revenue while the Motion department contributes almost one third of Industrial Technologies platform' revenue.

WB-A Motion set up its Asia-Pacific IPO (International Purchasing Office) in 2003. The three individuals involved in the relationship are a Senior Buyer, a Sourcing Manager, both Chinese nationals, based in Shanghai, China and an American buyer

based in the US. The Sourcing Manager reports to Asia-Pacific Sourcing Director also based in Shanghai.

According to the Sourcing Manager and the Senior Buyer, the products they source from China are mainly mechanical precision parts used for mechanical motion systems such as motor and gear box. They had up to 20 Chinese suppliers at the time of this research conducted. The parts are high variety, low volume and medium product complexity, which achieve low level of economy of scale; therefore make large scale suppliers reluctant to manufacture.

### **5.2.2 Chinese Supplier A**

Chinese Supplier A (CS-A) was established in 1997 by a group of individual investors in Suzhou, Jiangsu province in China, which is 80 km away from Shanghai, a city in the area of Yangzi river delta and topped the rankings in the list of 'China's 20 Most Attractive Cities for Foreign Investors', which was released by the Chinese Academy of Social Sciences (CASS) and China Business News (CBN) in 2006 (China Law and Practice, 2006). Suzhou is famed for its ancient gardens and most recently for its high-tech industrial development zone. CS-A's main business includes the manufacturing of mechanical parts and precision machined parts and its strategy focuses on overseas market.

In the first few years of the company, there were few business orders. The current Vice General Manager also acting as Account Manager has used his relationships with foreign invested companies in China and has gained more business for the company including orders from WB-A. The Account Manager himself worked for a number of foreign invested companies in China before he joined CS-A. He can speak fluent English; therefore is the main point of contact for Western business partners.

Both the GM and the Account Manager have been shareholders and in the top management team of CS-A from the beginning of the relationship. The GM was elected by shareholders in 2007 to replace the previous one, who is believed less capable of implementing the expansion strategy of CS-A. The Account Manager is different from other shareholders since CS-A is the only organization in which he has invested while all other shareholders have shares in other companies. He has been dedicated to CS-A since 1997.

CS-A's annual turnover was approximately seven million US dollars in 2007. WB-A's purchase represents about 30% of CS-A's revenue. CS-A has a workforce of well over 100 employees. In the summer of 2008, they relocated the factory to a new location in Suzhou with increased capacity, symbolising the expansion of their business due to the increased order volumes from WB-A.

### **5.2.3 WB-A and CS-A Relationship**

In this section, first the relationship between WB-A and CS-A is described. Then the relationship is assessed against the case selection criteria set in the methodology chapter.

### 5.2.3.1 Background - the Relationship

The relationship between WB-A and CS-A started in the earlier half of 2005. By the end of 2005 and early 2006, their business had expanded i.e. CS-A saw a significant increase in the number of orders from WB-A, because WB-A was satisfied with CS-A's performance. In 2007, WB-A became the No.1 account of CS-A in terms of revenue contributed. Figure 5-1 shows the relationships, which exist at the interface between the two companies.

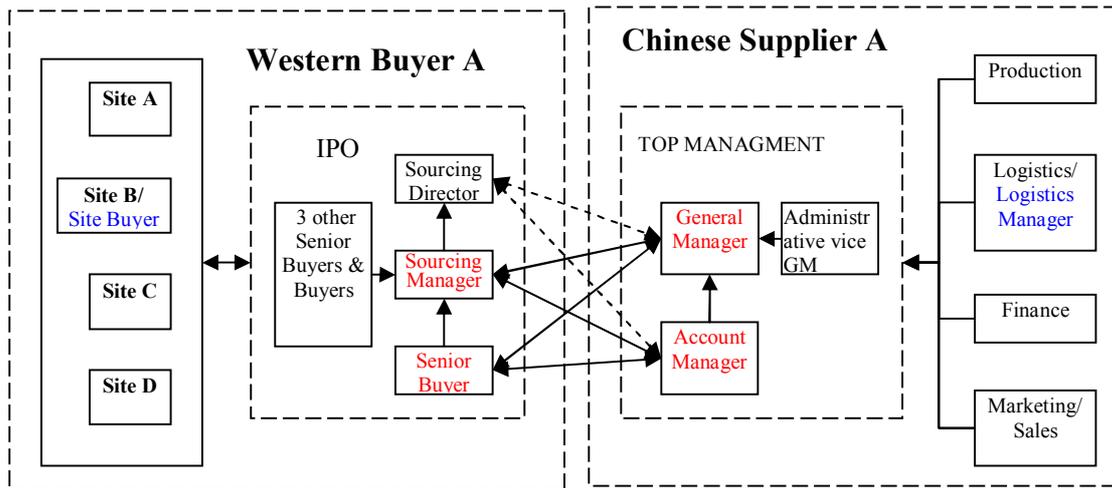


Figure 5-1: WB-A and CS-A interface

There are six interviewees in this case highlighted in red and blue in figure 5-1. The informants are categorized into two types, namely, key informants and common informants as described in the methodology chapter. Key informants refer to those who work closely with individuals of the other party and at the buyer-supplier interface. The key informants are labeled as Interface Active Agent (IAA) in this research, which is defined as those individuals who work closely with individuals of the other party at the interface between Western buyers and their Chinese suppliers.

The four key informants (IAAs) marked in red include: the Senior Buyer and the Sourcing Manager from WB-A Motion Asia Pacific IPO (shortened as WB-A's IPO later) and the Account Manager and the General Manager (GM) from CS-A. The two remaining informants marked in blue are: a site buyer (American) from one of the WB-A's sites/plants based in the US and the other is the Logistics Manager of CS-A. The Senior Buyer was interviewed twice: the first interview was carried out as part of the pilot study in July 2007; the second in July 2008. All other interviews in this case were undertaken in June and July, 2008. The dashed lines between WB-A's Sourcing Director and CS-A's top management indicates less frequent interaction than that of the other key informants hence the Sourcing Director was not selected as an informant.

A number of individuals of WB-A's IPO and CS-A's top management interacted frequently. They are at the interface between WB-A and CS-A. Among them, the Senior Buyer of WB-A and the Account Manager of CS-A interacted most frequently. Site A to D represent 20 WB-A's plants based in the US that interacted directly with CS-A for daily operations such as placing orders via emails and fax mainly. Most of the buyers

based in the US have been to China once or twice to visit CS-A. If there is any problem or a need to visit CS-A, they will ask the IPO for assistance. They interacted with the IPO through conference calls at least once a week, emails and physical visits on average at least once a year.

In CS-A, all functional departments report to top management, which includes the GM, the Account Manager (Also known as Vice GM responsible for key accounts of CS-A) and the Administrative vice GM responsible for HR and administrative issues. In WB-A, the Senior Buyer reports to the Sourcing Manager who in turn reports to the Sourcing Director of Asia Pacific IPO. Except for the Senior Buyer, there are three other Senior Buyers and Buyers responsible for other businesses reporting to the Sourcing Manager.

### 5.2.3.2 Assessment of the Relationship against Case Selection Criteria

The aim of this section is to establish that this relationship fits with the case selection criteria set in the methodology chapter.

Case selection criteria	WB-A and CS-A relationship
1. Western buyer has an IPO or equivalent in China.	WB-A has an IPO in Shanghai, China
2. Dyad is from manufacturing industry.	Yes, mechanical manufacturer
3. Western buyer has a subsidiary/headquarter in the UK or US, which deals with the Chinese supplier identified.	WB-A is headquartered and has 20 plants in the US. One of them dealing with CS-A was chosen.
4. Western buyers are selected from Large scale Western manufacturers	WB-A is a fortune 500 mechanical manufacturer with 50,000 employees worldwide.
5. Dyad is in the commitment/partnership stage.	Yes (details to follow)

**Table 5-1: Assessment of case selection criteria**

Table 5-1 shows that: 1) WB-A has an IPO in Shanghai, China; 2) this relationship is within the mechanical manufacturing industry; 3) WB-A is a US based company. A number of its plants based in the US deal with CS-A; 4) WB-A is a fortune 500 mechanical manufacturer with 50,000 employees worldwide. While the case clearly meets the first four case selection criteria, the following paragraphs serve to evaluate whether or not the fifth criterion has been met.

Goffin et al. (2006) claim that commitment and trust are interrelated and trust is an enabler of partnership. Both commitment and trust are considered as attributes of partnership (Mohr and Spekman, 1994; Lambert et al., 1996). Ellram (1991) defines a purchasing partnership as “an agreement between a buyer and a supplier that involves a commitment over an extended time period, and includes the sharing of information along with a sharing of risks and rewards of the relationship.” Therefore we might conclude from the literature that commitment is a key characteristic of partnership and used interchangeably with partnership in this research.

The four key informants were asked to rate from 1 to 5 the six statements/characteristics of partnership in the pre-interview questionnaire. These six characteristics of partnership are summarized from the three papers (Mohr and Spekman, 1994; Lambert et al., 1996; Ellram, 1991). The statements are related to commitment, information sharing, risk sharing, high level of interdependence, compatible goal and striving for mutual benefits, where 5 represents highly agree; 4 agree; 3 neutral; 2 disagree; and 1 highly disagree.

<b>IAAs</b>	<b>Sourcing Manager</b>	<b>Senior Buyer</b>	<b>Account Manager</b>	<b>General Manager</b>
<b>Statements</b>	<b>(WB-A)</b>	<b>(WB-A)</b>	<b>(CS-A)</b>	<b>(CS-A)</b>
Commitment in the relationship	4	4	5	4
Sharing of information	4	3	5	4
Sharing of risks and rewards	4	4	3	3
High level of interdependence	3	4	4	5
Compatible goals	4	5	4	5
Striving for mutual benefits	4	4	3	3
<b>Average score</b>	3.8	4.0	4.0	4.0

**Table 5-2: Average scores on 6 items of partnership rated by key informants (IAAs)**

Table 5-2 shows that the IAAs from both parties generally agree (scores are either close to 4 or 4) that the relationship was a partnership.

Commitment, which is an element of partnership, refers to an implicit or explicit pledge/commitment of relational continuity between exchange partners (Dwyer et al., 1987). There are three measures of the commitment stage according to Dwyer: high level of inputs to the association; some durability of the association over time; and consistency of the input. Furthermore a key indicator that a relationship has reached the commitment phase is that the parties purposefully engage resources to maintain the relationship.

Table 5-3 shows that the four key informants agree that there has been a high level of input into the relationship from both parties; the relationship has lasted over three years; and the input of both parties has been consistent from beginning of the relationship to the time when the interviews were conducted. Moreover, they all purposely engage resources, personnel, equipment and investments to maintain the relationship.

<b>Commitment characteristics</b>	<b>WB-A</b>	<b>CS-A</b>
<b>Level of inputs</b>	High. Dedicated personnel (Senior Buyer of IPO)	High. Factory expansion for WB-A's business
<b>Duration of the relationship</b>	3 and more years	
<b>Consistency of the input</b>	With more sites in the US sourcing from CS-A, more personnel were involved.	As CS-A gradually became the sole supplier of WB-A, CS-A consistently and heavily engaged its resources to the relationship.
<b>Purposely engaged resources to maintain the relationship</b>	Yes. The aim of WB-A is to maintain the relationship with CS-A as a strategic partnership; therefore WB-A is willing to engage necessary resources.	Yes. WB-A is No.1 account, therefore it is keen to engage any available resources to maintain the relationship.

**Table 5-3: Commitment characteristics of WB-A and CS-A**

Based on this analysis, it is concluded that the relationship was a partnership in the commitment stage; therefore the fourth case selection criterion is satisfied.

### **5.3 Cultural Adaptation Process**

Based on the three-stage model (Exploration, Expansion and Commitment) within the conceptual framework, the relationship between WB-A and CS-A is divided into three stages. In order to identify in which stage a specific adaptation has taken place, the time periods of each stage need to be established. This is followed by a discussion of how both parties adapted to each other in terms of the cultural behavioural differences within each of the three stages.

The informants were asked which party they thought had adapted in terms of the three cultural behavioural differences and when the adaptation had taken place. For each stage and each cultural behavioural difference, I looked for evidence on how the parties adapted and whether that adaptation involved no adaptation, understanding, adjustment or learning as described by the adaptation indicators identified in the previous chapter (table 4-9).

#### **5.3.1 Three-stage Relationship**

WB-A started trading with CS-A in early 2005. At the beginning, there was an initial cooperation. CS-A was not a mature supplier though they were doing business with foreign customers at that time. They were not mature in terms of the quality of their products and their experiences working with Western companies. This view was expressed by the Senior Buyer of WB-A's IPO.

*“They were at most the kind of supplier who could meet our basic requirements. There was a gap between their status then and our strategic core supplier. First of all, we needed to give them some small business to test them at the same time to make them familiarize with our business and train them to increase their capability.”*

One year later in early 2006, WB-A's IPO and CS-A's top management got to know each other more and CS-A gained more experience working closely with WB-A. At that time, WB-A made the decision to enter into a long term relationship with this supplier and hence they increased the quality of the business indicated by the complexity and profitability of the products sourced from CS-A.

Because their business with CS-A grew rapidly from the latter half of 2006 through 2007, CS-A encountered some quality control difficulties. The quality control standards were loosened due to lack of experienced workers and awareness from top management. In mid 2007, the Sourcing Manager and the Senior Buyer from WB-A's IPO visited CS-A's factory a number of times, identifying quality problems and requesting that they be addressed within three months. By the end of 2007, the Chinese supplier had a much better quality system according to the Senior Buyer. The view of the Account Manager of CS-A demonstrates that there was in fact a mutual desire to strengthen and extend the relationship.

*“We started the relationship on early 2005, and then they gave us some small business for trial. They started increasing orders and our business with them expanded quickly in early 2006. Since middle of 2007, our relationship has been stable and we all want to keep the relationship going.”*

The evidence presented suggests that the relationship between WB-A and CS-A can be divided into the three stages of the relationship evolving process as follows:

1. Exploration stage: early 2005- early 2006
2. Expansion stage: middle 2006- middle 2007
3. Commitment stage: late 2007 onward

### **5.3.2 Adaptation to the Cultural Behavioural Differences**

In this section, the findings on how WB-A and CS-A adapted to each other from the exploration to the commitment stage of the relationship in terms of the three cultural behavioural differences are presented. The alpha numerics in brackets are the indicators to differentiate different levels of cultural adaptation and were detailed in table 4-9 (chapter 4).

Regarding each cultural behavioural difference, I asked the informants: ‘who adapted and when?’ ‘Can you give me an example of the adaptation?’ Readers could follow this logic to read the quotes in the tables/matrices in this section and counterparts in the next three within case analysis chapters. Semi-structured interview questions are listed in appendix 5.

Cultural adaptation occurs as the relationship evolves over time as such a time-ordered matrix was selected to study the process (Miles and Huberman, 1994). The columns comprise the stages of evolving relationship. There are two rows one each for the Western buyer and the Chinese supplier. Each table addresses one root difference or sub-difference.

#### **5.3.2.1 Adaptation to Family Orientation vs. Self Interest**

As shown in table 5-4, the Senior Buyer claimed that WB-A’s IAAs ‘understood’ this difference before the relationship with CS-A started and showed his understanding of this difference (U2) indicating that they ‘understood’ this at the exploration stage.

The Senior Buyer of WB-A’s IPO claimed that the IPO individuals had to adapt to the family orientation of the Chinese supplier such as working when they are off duty if needed, which is not a norm in the West in early 2006.

Based on the author’s observation of their responses, WB-A’s IAAs (Interface Active Agents) were forced to sacrifice their personal times for their companies since they expressed the view that they preferred the Western way of working e.g. while one is on holiday, she or he should not be disturbed. Since they work in China, they had to adapt to this aspect of Chinese culture. The GM and the Account Manager of CS-A corroborated with the Senior Buyer’s view that WB-A’s IPO was influenced by CS-A

and had to adapt to the Chinese way of sacrificing their personal time for WB-A at the time when the research was conducted.

This is aligned with the indicator of adopting the behaviour of putting collective goals first consistent with Chinese culture reactively because they 'feel right' (A1). Therefore they 'adjusted' to the collective nature of Chinese culture at the expansion and commitment stages.

The top management of CS-A originally believed that people are inherently self interested whether he/she is Chinese or a Westerner according to the GM (NA2). After they interacted with WB-A and at the beginning of the relationship, they realized that there is difference between China and the West on this and if employers could allow some degree of individualism in the collective Chinese society, employees would appreciate it and work more efficiently i.e. individual rights should be protected in China (U3 & 4). This indicates that CS-A's IAAs 'understood' this difference at the exploration stage of this relationship.

When the GM was elected in 2007, the top management of CS-A started adapting to this by not disturbing individual employee's life if company businesses do not need urgent response from the relevant employees. Both the GM and the Account Manager referred to recent Chinese law which requires employers to improve the welfare and working conditions of the employees. The Account Manager gave an example of respecting their employees' self interest, which happened in 2008, but also emphasized that they prioritise the company's interest over their own. This indicates that CS-A's IAAs adopted the behaviour of protecting self interest consistent with Western culture reactively (A1). Hence, it might be concluded that CS-A's IAAs 'adjusted' to self interest during the expansion and commitment stages.

In the pilot study, it was proposed that:

As a relationship develops toward commitment stage, both parties adapt equally in terms of family orientation vs. self interest.

Based on the findings in this case, the proposition is supported. By introducing the concept of IAA and establishing a clearer understanding of who adapts to what, the proposition is revised as follows:

*PI: As a relationship develops toward the commitment stage, interface active agents (IAAs) from both parties adjust to each other in terms of family orientation vs. self interest i.e. Western buyer IAAs tend to adjust to family orientation and Chinese supplier IAAs tend to adjust to self interest.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer A</b>	<p><i>“If Americans and Europeans are on holiday, they don't read emails and answer phone calls from their companies even the company stops the operational line to wait for them till they come back from holiday. They put their own family and themselves first. Chinese suppliers are generally very responsive. They work overtime to finish a project on time. We IPO understood this before the relationship with CS-A was formed.”</i> (Senior Buyer, WB-A IPO)</p> <p>(Understand: indicator U2)</p>	<p><i>“Both the IPO and the top management of CS-A adapt to a similar degree in this aspect. American individual buyers changed a lot and they checked their emails over weekends as well. We China sourcing team also do the same in order to have smooth interaction with CS-A and started adapting to this in about 2006 when our business expanded with them.”</i> (Senior Buyer, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“I think both adapt to each other. We Chinese will make every efforts to work for the company, which is like a family to us if needed; therefore put company benefits first. In China, personal welfare is not fully protected by the law, for example if one shuts down his mobile phone when he is not on duty and something happens in the company, he will be responsible for that. In the West, individual interest is protected by the law. When WB-A does business with us, they are influenced by us and adapted to our way of doing things in this aspect. For example, we had problem with their responsiveness. They used to be slow to respond to our questions. But now when we have urgent questions about the requirements and ask them over weekends or during their holidays, they are responsive to us”</i> (GM, CS-A)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier A</b>	<p><i>“We thought people are inherently self interested whether he/she is Chinese or a Westerner. But after we did business with WB-A, we changed our views on this. There is difference between China and the West on this. We emphasize the company's interest while Western companies emphasize individual interest. We got to understand this at the beginning of the relationship”</i>(GM, CS-A)</p> <p>(Understand: indicators NA2, U3&amp; U4)</p>	<p><i>“We (top management team) adapted to this when I was appointed the GM of this company in the middle of 2007. We are influenced by them in the sense that if things are not so urgent, we don't disturb individual employee's personal life.”</i> (GM, CS-A)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We definitely put company's interest above our own interests. Most of my time is spent on working for the company. It is the same for other top management members. Western companies are not like this. They know better how to enjoy life than us and therefore in this sense, they put their personal interest above their companies sometimes. [The author: Who adapted?] I think both adapted. For example, the IPO people work harder than before. There is a new project going on between us recently, they works overtime on weekdays and on weekends with us in order to ensure the product quality. We don't make very tight production plan like before; therefore our employees can be more relaxed.”</i> (Account Manager, CS-A)</p> <p>(Adjust: indicator A1)</p>

**Table 5–4: Adaptation to Family Orientation vs. Self Interest**

### 5.3.2.2 Adaptation to Guanxi Network vs. Multiple Institutions

As shown in table 5-5, the Senior Buyer explained implicitly that WB-A focused on the rules and procedures and CS-A focused on Guanxi and claimed that they (the Sourcing Manager and himself) ‘understood’ the difference at the time when the team was formed in 2003 and before the relationship with CS-A started. This showed WB-A’s IAAs understanding of this difference and understood this aspect of Chinese culture in its own term by using the word “harmony” at the exploration stage (U1 & 2).

The Sourcing Manager claimed that WB-A’s IAAs have adapted to CS-A by paying more frequent visits to the Account Manager and built harmonious relationship with top management of CS-A since 2006. This was corroborated by the Account Manager of CS-A. However the Sourcing Manager implied that they failed to build harmonious relationship with top management of CS-A and were forced to change their behaviours in 2006. This suggested that they adopted the behaviour consistent with a target culture reactively (A1) at the expansion stage.

As the Sourcing Manager and the Senior Buyer of WB-A’s IPO repeatedly mentioned that the way to build up good relationship with Chinese suppliers is to have a harmonious relationship with top management of CS-A. The author also observed that when the Senior Buyer visited CS-A, most of his time was spent dealing with top management. At least, whenever there is a problem, the first point of contact is the Account Manager, a key member of top management team. WB-A’s IAAs enjoyed the harmonious relationship with CS-A top management and vice versa. Based on my observations and interview findings in table 5-5, WB-A’s IAAs have used knowledge of opposite culture proactively and interacting with personnel of the other party regularly and willingly (L1 & 2) at the time when the research was conducted, therefore they have ‘learnt’ Guanxi network featured by harmony within hierarchy at the commitment stage.

Both the GM and the Account Manager claimed that CS-A’s IAAs had problems understanding WB-A’s requirements, rules and procedures at the beginning of the relationship and then gradually they could at the exploration stage (U1).

Both the GM and the Account Manager agreed that they adapted to WB-A’s requirements, rules and procedures two years ago, when the relationship was at the expansion stage.

While the GM showed me around the plant, I noticed that the safety warning signs and procedure diagrams are neatly hanged on the notice board and organized around the workstations. All the materials are placed neatly in a corner of the plant and form a part of the factory’s materials inventory. The rest is located in a warehouse nearby. The GM stressed that they pay much attention to the training of staff and rules and procedures are now paramount in the plant. They have quality inspectors for quality control and their quality is much better than three years ago. They have gradually improved the quality of products and management skills.

The Senior Buyer of WB-A’s IPO corroborated with the view that the quality system of CS-A was much better than before but CS-A has not actively integrated the Western

rules and procedures into their own culture because they are still pushed by WB-A to improve their product quality at the time when the research was conducted. This suggests that CS-A's IAAs adopted the behaviour of following rules and procedures consistent with Western culture reactively (A1); therefore it might be concluded that CS-A has 'adjusted' but not achieved the "learn" level in their adaptation to multiple institutions represented by the requirements, rules and procedures at the expansion and commitment stages.

In the pilot study chapter, it was proposed that:

As a relationship develops toward commitment stage, Chinese suppliers tend to adjust to Western buyers in terms of multiple institutions. Western buyers tend to learn Chinese supplier in terms of Guanxi network.

Based on the findings, this proposition is supported. By introducing the concept of IAA again, it is revised as follows:

*P2: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to multiple institutions represented by Western rules and procedures and Western buyer IAAs tend to learn the feature of harmony within hierarchy of Guanxi network.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer A</b>	<p><i>“We need to be patient to CS-A especially when they did not follow our requirements, we didn’t shout at them. The harmony between us is really important. We need to persuade their top management to address the problem.”</i>  <i>[The author: When did you understand this?] I think at the time when the team was formed, we understood this.”</i> (Senior Buyer, WB-A IPO)</p> <p>(Understand: indicators U1 &amp; U2)</p>	<p><i>“At the beginning of the relationship, CS-A is not very interested in us, this was because first our order volumes were not big enough to motivate them; second we did not interact directly and build harmonious relationship with their top management. Then after some time, we adapted to them by giving them more business and interacted with their top management especially the Account Manager more frequently. [The author: When did you adapt?] That was in 2006.”</i> (Sourcing Manager, WB-A IPO)</p> <p><i>“In 2006, they paid more visit to us and we understood each other more. We set up the weekly meeting routine since then.”</i> (Account Manager, CS-A)</p> <p>(Adjust: indicator A1)</p>	<p><i>“Yes, we now keep frequent contact with their top management. To deal with Chinese suppliers, you have to go to the top management and have very good relationship with them in order to be successful.”</i> (Sourcing Manager, WB-A IPO)</p> <p>(Learn: indicators L1&amp; L2) related to observation</p>
<b>Chinese Supplier A</b>	<p><i>“[The author: When did you adapt to Western rules and procedures?] Surely 2 years ago we could. Before that, we just tried to understand WB-A’s requirements and did what they asked us to do.”</i> (GM, CS-A)</p> <p><i>“Initially we had problems following WB-A’s requirements because I did not understand. After some time, we gradually understood their requirements, rules and procedures better. [The author: when did you understand this?] That was at the beginning of the relationship.”</i> (Account Manager, CS-A)</p> <p>(Understand: indicator U1)</p>	<p><i>“We could adapt to their rules and procedures two years ago.”</i> (Account Manager, CS-A)</p> <p><i>“[The author: Did CS-A need to adapt to your requirements, rules and procedures?] Of course, we call these rigid requirements, which are not negotiable. They must accept. They have learned a lot of technical as well as management skills from us.”</i> (Senior Buyer, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“I feel we have now adapted to WB-A in this aspect. What we have adapted is to use the procedure and rule to manage the company.”</i> (GM, CS-A)</p> <p><i>“They now have a much better quality system. However they are still pushed by us to follow the roles and procedures. They have not integrated this into their own culture. They invested a lot in a new plant specifically designed for our business initially. We also put a lot effort to help them improve the communication with American plants.”</i> ( Senior Buyer, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>

**Table 5–5: Adaptation to Guanxi Network vs. Multiple Institutions**

### 5.3.2.3. Adaptation to Guanxi Relationship Building vs. Western Relationship Building Process

In the literature review chapter, I have identified four sub-differences, which define the difference of Guanxi relationship building process (GR) vs. Western relationship building process (WR):

1. Flexible nature of GR featured by the interplay of *face* and *renqing* vs. progressive nature of WR
2. Yin-yang principle of GR vs. dualistic thinking of WR
3. Personal informal nature of GR vs. corporate to corporate formal nature of WR
4. Long term orientation of GR vs. short term orientation of WR

During the pilot study, this difference was not divided into the four sub-differences and treated as one. Hence it is necessary to develop propositions for each of the four sub-differences in this case.

#### 5.3.2.3.1 Adaptation to Flexible Nature of GR vs. Progressive Nature of WR

In table 5-6, according to the Sourcing Manager and the Senior Buyer of WB-A, they understood this difference before the relationship with CS-A started. The WB-A's Sourcing Manager's account suggests that WB-A's IAAs understood the Chinese term of *face* and *renqing*, showed his understanding of and acknowledged this difference (U1, 2 & 3). Therefore it might be concluded that WB-A's IAAs 'understood' this difference at the exploration stage of the relationship.

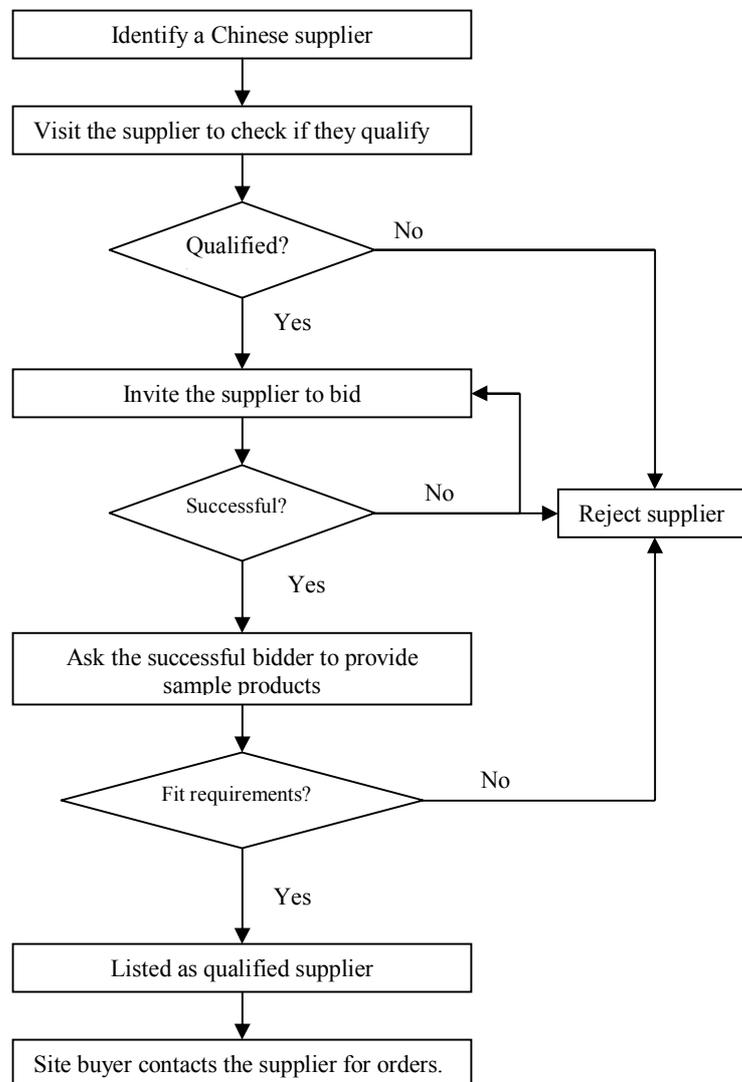
The Senior Buyer of WB-A's IPO claimed that WB-A's IAAs adapted to giving *face* and exchange of *renqing* in the latter half of 2006. He also stated that although *face* and *renqing* are not essential in the relationship, they had to give *face* to and exchange *renqing* with CS-A's IAAs at the time when the research was conducted. This was corroborated by the GM of CS-A, who claimed that nowadays the importance of *face* and *renqing* are decreasing, but WB-A's IAAs had to adapt. This suggests that WB-A's IAAs adopted the behaviour of saving *face* and exchanging *renqing* consistent with Chinese culture reactively (A1) indicating that they 'adjusted' to *face* and *renqing* but there seems no need to 'learn' i.e. proactively practice this aspect of GR at the commitment stage.

As I observed, the style of the formal meetings between WB-A's and CS-A's IAAs was very straightforward and efficient. However many informal meetings have taken place in the lead up to the formal meetings. In an informal meeting, I found WB-A's IAAs compliment made IAAs from CS-A happy. In Guanxi terms, this interaction 'gave *face*' and provided an indication that the relationship is good.

Based on the evidence presented, it might be concluded that WB-A's IAAs 'adjusted' to saving *face* and exchange of *renqing* at the expansion and commitment stages.

According to the Senior Buyer of WB-A's IPO, the procedure that WB-A follows in order to select qualified Chinese suppliers is illustrated in figure 5-2 and described as follows:

1. Identify a Chinese supplier;
2. Visit the supplier to check if they qualify the basic requirements based on the certification procedures for qualified suppliers of WB-A;
3. If buyers consider the Chinese supplier qualified, then invite the supplier to bid for projects; there will be several bidders and they choose the one with the best overall performance not necessarily the one with the lowest price. If unsuccessful, the Chinese supplier may be invited to bid again or rejected.
4. Then ask the successful bidder to provide sample products;
5. If the sample product fits the requirements, the Chinese supplier will be listed as qualified supplier and recommended to the site buyer based in the West. If not, the supplier is rejected.
6. The site buyer then contacts the Chinese supplier directly for any purchasing activities. The IPO personnel are involved on a need basis.



**Figure 5–2: WB-A's supplier selection procedure**

After becoming a qualified supplier, CS-A followed the progressive and step by step relationship building process i.e. exploration, expansion and commitment according to the IAAs. The process is detailed in section 5.3.1.

The Account Manager showed his understanding of this difference and claimed that the GM and he 'understood' this at the beginning of the relationship (U2). This indicates that CS-A's IAAs 'understood' this difference at the exploration stage.

Both the Senior Buyer of WB-A and Account Manager of CS-A claimed that CS-A's IAAs had to follow WB-A's step by step relationship building process since 2006. Based on the response of WB-A's IAAs, all existing Chinese suppliers of WB-A have been through this process without exception including CS-A. The response of CS-A's IAAs to this process is that it is complicated and time consuming, but understandable at the time when the research was conducted. This indicates that they are obliged to follow the process.

The evidence suggests that CS-A's IAAs adopted the behaviour of following step by step relationship building consistent with Western culture reactively and shifted behaviour more appropriate to the other's culture temporarily however may feel uncomfortable (A1 & 2). Therefore CS-A's IAAs have reached the 'adjust' level in the adaptation to the step by step relationship building process at the expansion and commitment stages.

Based on the analysis above, it is proposed that:

*P3a: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to step by step nature of WR and Western buyer IAAs tend to adjust to flexible nature of GR by 'giving face' and 'exchanging renqing'.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer A</b>	<p><i>“For example, for Chinese it is not important to sign a contract or not. It is important for him to trust you. If he trusts you, even if he does not read the contract, he will sign it. On the contrary, Westerners feel they get some kind of protection once the contract is signed, then the relationship can move on. If you don’t sign it, the relationship never starts. This is to say Western companies pay attention to procedures and build relationship based on incremental successful transactions step by step. Chinese companies are governed by individuals not by procedures. Chinese put Guanxi ahead of business and make decision to do business with someone based on personal feelings. For example, if I don’t feel good about you, I don’t do business with you. It’s all about personal trust. [The author: When did you understand this?] We understood this before the relationship with CS-A started.”</i> (Sourcing Manager, WB-A IPO)</p> <p>(Understand: indicators U1, U2 &amp; U3)</p>	<p><i>“The Account Manager and I have become personal friend now. I can talk to him about my personal life. If there is something happening for the relationship between the two companies, he will help me out. We trust each other...I feel face is not an important issue any more. Chinese supplier can understand the Western straightforward way of doing things. They know that Westerners just want to solve the problem more efficiently. As a matter of fact, the only goal that both Chinese and Western businessmen try to achieve is to increase profits...We have to adapt to CS-A on this. [The Author: When did you adapt to Chinese supplier on this?] In the middle of our cooperation in the latter half of 2006, we adapted.”</i> (Senior Buyer, WB-A IPO, interview conducted in 2007)</p> <p>(Adjust: indicator A1)</p>	<p><i>“Chinese emphasize face but only target the person with whom they have personal relationship. If somebody else was in my place, he might not get the same level of services I have now. So I feel that we have combined the business relationship with personal one. We want the kind of personal relationship which has synchronized thinking, respect and forgiveness. It is beyond business and is emotional and aggregate of relationship building.”</i> (Sourcing Manager, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier A</b>	<p><i>“WB-A selects suppliers based on a set of procedures and built relationship with us step by step. We understood this several months after we worked with them”</i> (Account Manager, CS-A)</p> <p>(Understand: indicator U2)</p>	<p><i>“We adapted to them in terms of step by step relationship building by following their requirements and bidding procedures. I feel that they have a plan to develop us. For example they gave us some business for trial; when we performed well, they ordered larger volume. The Sourcing Manager and the Senior Buyer of WB-A visit us frequently, identify any problems with us and make plans to address these problems. We adapted to this one year after the relationship started...Although the importance of face and renqing is decreasing in China, WB-A individuals still need to adapt to this to some degree.”</i> (Account Manager, CS-A)</p> <p>(Adjust: indicators A1 &amp; A2)</p>	<p><i>“Face and renqing are not the most important now. Of course when we interact with each other, there is face and renqing. But they don’t make decision to do business with us based on face or renqing. In fact, they evaluated and audited us every now and then based on a set of measurements. When you reached a certain level, your position is upgraded. Now we follow and adapt to this Western step by step relationship building process.”</i> (GM, CS-A)</p> <p>(Adjust: indicators A1 &amp; A2)</p>

**Table 5–6: Adaptation to flexible nature of GR vs. progressive nature of WR**

### 5.3.2.3.2. Adaptation to Yin-yang Principle of GR vs. Dualistic Thinking of WR

Table 5-7 shows that the Sourcing Manager claimed that WB-A's IAAs failed to build a good relationship with CS-A because they took an arrogant attitude toward CS-A. Then they realised that they had to be persuasive and flexible at the beginning of the relationship. Philosophers of Yin-yang principle emphasize dynamic transformation from Yin (being soft) to Yang (being firm) and vice versa effortlessly. In this case, WB-A's IAAs had to change from Yang to Yin at the beginning of the relationship and did not stick to their original attitude. This suggests that they adopted the behaviour based on Yin-yang principle consistent with Chinese culture reactively and used knowledge of opposite culture without realising it (A1 & 4). This was corroborated by the Account Manager of CS-A by giving an example of a transformation between yin and yang by WB-A's IAAs.

The Senior Buyer of WB-A's IPO claimed that they have practiced Yin-yang principle very well since mid-2006. The GM and the Account Manager of CS-A concurred with this view and stated that WB-A's IAAs have adapted well two years ago. Based on the author's observation of WB-A's IAAs response, they were very interested in reading and studying Yin-yang principle and have grasped this philosophy well (L1 & 3). For example, both the Sourcing Manager and the Senior Buyer explained in much detail about their understanding of Yin-yang principle showing a depth of knowledge that could only be gained through personal study. The evidence suggests that they have 'learnt' Yin-yang principle of the Guanxi building process at the expansion and commitment stages.

The Account Manager showed his understanding of this difference and claimed that although CS-A's IAAs were aware of the dualistic thinking at the beginning of the relationship, they do not adapt to the dualistic thinking. The GM also showed his understanding of this difference and indicated that the Western dualistic thinking is understandable at the time when the research was conducted. Both show their understanding of this difference. They were tolerant and had a sympathetic attitude toward Western dualistic thinking indicating that they 'understood' this difference from exploration to commitment stage (U2 & 4). I also observed from their responses that they have been aware of the Western dualistic thinking, however the Yin-yang principle is rooted in their life philosophy and behavioural norms and it is difficult to change.

Based on the findings and analysis above, it is proposed that:

*P3b: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand dualistic thinking of WR and Western buyer IAAs tend to learn Yin-yang principle of GR.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer A</b>	<p><i>“Initially we were arrogant to CS-A, because we think we are Western firms and Chinese companies like CS-A should be very happy to work with us. We were wrong. Our purchasing orders are generally not large; therefore sometimes can’t attract Chinese suppliers. In this situation, we have to be persuasive and flexible. If you have large quantity of order and therefore have power, you can be coercive; the suppliers have no option but comply. There is nothing to celebrate about that. If you don’t have large orders and the supplier gives you full support, it is the ability of an individual buyer that matters. We should celebrate the individual buyer’s achievement. This is where the individual buyer shows his/her relationship building skills...We adapted to this at the beginning of the relationship.”</i> (Sourcing Manager, WB-A IPO)</p> <p>(Adjust: indicators A1 &amp; A4)</p>	<p><i>“Chinese are very dynamic and flexible and can be firm and soft. They can change from firm to soft and vice versa. This is what we call it Yin-yang. We have performed this very well since middle of 2006.”</i> (Senior Buyer, WB-A IPO)</p> <p><i>“WB-A’s IPO adapts to the yin-yang principle well 2 years ago. Westerners are straightforward. Chinese sometimes don’t like to say something in the formal meetings because first they don’t want to argue with others; second it is not appropriate to tell some reasons in the formal meeting. Side/informal meetings are needed to sort things out. They adapted by holding a lot of side meetings with us.”</i> (GM, CS-A)</p> <p>(Learn: indicators L1 &amp; L3)</p>	<p><i>“They now adapt to us completely. For example, if they have a good project, they will be very strong in attitude. If they have a difficult project, they will do the other way round, being gentle. They started adapting to this since we started the relationship.”</i> (Account Manager, CS-A)</p> <p>(Learn: indicators L1 &amp; L3)</p>
<b>Chinese Supplier A</b>	<p><i>“At the beginning of the relationship, They did things based on business principle. This is business. Western firms want to save money and we want to earn profit. We earn reasonable profits; therefore our price is attractive to them...We understood that Western people are straightforward at the beginning of the relationship, however we don’t adapt and they adapted to us.”</i> (Account Manager, CS-A)</p> <p>(Understand: indicators U2 &amp; U4)</p>	<p><i>“We don’t adapt to this and they adapt to us completely on this. For example, if they have a good project, they will be very strong in attitude. If they have a difficult project, they will do the other way round, being gentle. They can adapt to this since we start developing our business with them.”</i> (Account Manager, CS-A)</p> <p>(Understand: indicator U2)</p>	<p><i>“Yin-yang principle means that the world is dynamic and calls for a holistic view to see the world. Everything has its opposite; therefore taking a holistic view, one has to consider both positive and negative sides. In the West, people do business based on economic principles. Westerners like arguing to prove whether he/she is right or wrong. They like black and white e.g. clear cut answers to any questions. This is understandable.”</i> (GM, CS-A)</p> <p>(Understand: indicators U2 &amp; U4)</p>

**Table 5–7: Adaptation to Yin-yang principle of GR vs. dualistic thinking of WR**

### **5.3.2.3.3. Adaptation to Personal Informal Nature of GR vs. Corporate to Corporate Formal Nature of WR**

Shown in table 5-8, at the beginning of the relationship, WB-A's IAAs found that formal meetings with CS-A did not work well; therefore they had to build personal relationship with the Account Manager of CS-A indicating that they adopting the behaviour of building personal relationship consistent with Chinese culture reactively (A1). Therefore they 'adjusted' to the informal and personal nature of GR at the exploration stage.

The Sourcing Manager of WB-A stated that the personal relationship brought a lot of benefits to his company and his personal development in the company and they have had good personal relationship with CS-A's IAAs since 2006. The Senior Buyer of WB-A was proud of being a personal friend of the Account Manager when he was interviewed in 2007. WB-A's IAAs enjoyed the personal and informal relationship with CS-A's IAAs showing that they used this knowledge of Chinese culture proactively since the expansion stage of the relationship (L1). Therefore they 'learnt' personal and informal nature of GR at the expansion and commitment stages. Furthermore, this was corroborated by both the GM and the Account Manager, who repeatedly claimed that WB-A's IAAs are friends of theirs and it is crucial for their business to make good friends like them.

As the author observed during a dinner with IAAs of both parties, they talked about their personal lives and amused with each other with jokes. They had the feeling that they are a team and brothers. Everybody tried to keep the harmonious ambience created during the informal hand-outs. They held such gatherings at least once in every two weeks. The locations were either in Shanghai or Suzhou.

CS-A's IAAs showed their understandings of this difference but still preferred personal and informal relationship and tended not to adapt in this aspect (U2) at the time when the research was conducted. The Account Manager of CS-A claimed that they understood this at the beginning of the relationship. Therefore it might be concluded that they 'understood' this difference from exploration to commitment stage of the relationship.

Based on the findings in table 5-8 and above analysis, it is proposed that:

*P3c: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand the formal and corporate to corporate nature of WR and Western buyers IAAs tend to learn the informal and personal nature of GR.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer A</b>	<p><i>“At the beginning, they did not pay much attention to us. We then introduced our brands, products and company culture and got to know each other. We started interactions with formal meetings and felt they did not work well. Then we had dinners several times with the Account Manager, who is the key person in CS-A. After several informal meetings and dinners together, both the Account Manager and we felt that we can trust each other personally. It is important to be honest and committed to the relationship.”</i> (Senior Buyer, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We sometimes negotiated in the conference room and then went out to have dinners, played bowling and Karaoke together. Our boss (the Sourcing Manager) always tells us that we should make friends with key persons in the Chinese supplier and do not treat Chinese suppliers as subordinates. If you do that, Chinese suppliers will not trust and care about you...It is beneficial to both parties to develop personal relationship. Chinese tend to build friendship before doing business. The Account Manager and I have become personal friends now. We can talk about our personal life to each other. If there is something happening for the relationship between the two companies, he will help me out. We trust each other.”</i> (Senior Buyer, WB-A IPO; interview conducted in July 2007)</p> <p>(Learn: indicator L1)</p>	<p><i>“Personal relationship is a kind of understanding and include emotional element but this can't harm company's interest...Building up personal relationship is a process. We have had good personal relationship with top management of CS-A since the latter half of 2006. This personal relationship brings benefits to the company and me. Chinese emphasize face but only target the person with whom they have personal relationship. If another one was in my place, he might not get the same level of services I have now. So I feel that we should combine the business relationship with personal relationship. We want the kind of personal relationship which has synchronized thinking, respect and forgiveness. It is beyond business and is emotional and aggregate of relationship building.”</i> (Sourcing Manager, WB-A IPO)</p> <p>(Learn: indicator L1)</p>
<b>Chinese Supplier A</b>	<p><i>“In this aspect, we prefer the informal personal relationship and don't adapt to Western style. They adapted to us. Chinese will go to the right person to discuss the business and emphasize the communication with that person. Yes, Western firms are formal in the sense that they hold formal meetings with us and they don't rely on specific individuals to maintain the relationship like what we do. We understood this at the beginning of the relationship.”</i> (Account Manager, CS-A)</p> <p>(Understand: U2)</p>	<p><i>“In China, we prefer to give business to our friends even if they perform a little worse. In the West, they don't work at the individual level but at the organizational level.”</i> (GM, CS-A)</p> <p>(Understand: U2)</p>	<p>(Understand)</p>

**Table 5–8: Adaptation to personal informal nature of GR vs. corporate to corporate formal nature of WR**

#### 5.3.2.3.4 Adaptation to Long Term Orientation of GR vs. Short Term Orientation of WR

In table 5-9, the Sourcing Manager stated that CS-A was not interested in doing business with WB-A, because WB-A's site buyers based in the US tended to be short term orientated toward CS-A. WB-A's IAAs stepped in and changed the strategy from the short term orientation to building a long term relationship with CS-A since the short term orientation did not work for the relationship with CS-A.

Long term orientation between companies is intertwined with that between key individuals from the two companies. In the last section (5.3.2.3.3), it is argued that WB-A's IAAs 'adjusted' to personal and informal nature of GR at the exploration stage. They 'adjusted' to the long term orientation at the corporate level at the exploration stage as well because good business relationships can not be formed if personal relationships between the key personnel of the two companies are not formed.

The IAAs from both parties corroborated with each other on the fact that WB-A's IAAs have developed CS-A into a core supplier of theirs and have formed long term relationship with each other. The Sourcing Manager claimed that they decided to have long term relationship with CS-A in early 2006. Also in relation to section 5.3.2.3.3, WB-A's IAAs 'learnt' personal and informal nature of GR shown in the fact that they actively formed personal relationship with CS-A's IAAs at the expansion and commitment stages. Long term corporate level relationship has been formed between WB-A and CS-A as a result of the formation of long term personal relationship between IAAs from both parties, therefore WB-A's IAAs have also 'learnt' the long term orientation of GR at the expansion and commitment stages.

CS-A's IAAs did not understand this difference because in their mindset Guanxi relationships are supposed to be long term at the time when the research was conducted. Short term orientation is considered immoral and is disdained in China. Since WB-A's IAAs have adapted to this, there is no need for CS-A's IAAs to adapt. This fits the indicators for 'no adaptation' that they think they behave in a natural and normal way and different ways are wrong and misguided (NA1); therefore CS-A's IAAs did not adapt to short term orientation from exploration to commitment stage.

Based on the analysis above, it is therefore proposed that:

*P3d: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend not to adapt to short term orientation of WR and Western buyer IAAs tend to learn long term orientation of GR.*

In the pilot study, it was proposed that (P3):

As a relationship develops toward commitment stage, Western buyers tend to learn Guanxi building process. Chinese suppliers tend not to adapt to Western relationship building process.

Based on Propositions 3b-d, the above proposition is supported by case A. However P3a indicates that both parties adjust to each other and P3d indicates that Chinese supplier IAs tend not to adapt to short term orientation. Therefore it is proposed that:

*P3: As a relationship develops toward the commitment stage, Chinese supplier IAs tend to understand or tend not to adapt to features of WR and Western buyer IAs tend to learn most of the features of GR.*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<p><b>Western Buyer A</b></p>	<p>“At the beginning of the relationship, American buyers couldn't see the benefits of long term relationship and were more concerned about short term savings. If you can see the long term savings, you can share the price rise with Chinese suppliers for the moments. We can discuss with the supplier how much we can absorb and how much they can do for the raw material price rise.” (Senior Buyer, WB-A IPO)</p> <p>“The Senior Buyer and I have developed CS-A what it is now therefore I am familiar with this supplier. At the beginning of the relationship, everything was not going well mainly because our buyers based in the US were short term orientated, which made CS-A not very interested in our business. We IPO changed the relationship building strategy from short term to long term and have developed CS-A into one of our core suppliers. This happened in early 2006.” (Sourcing Manager, WB-A IPO)</p> <p>(Adjust: indicator A1)</p>	<p>“After one year, in early 2006, we have got to know each other more, CS-A has gained some experiences working with us and we were satisfied with their performance. At that time, we decided to have long term relationship with this supplier. We then increase the quality of the business indicated by the complexity and profitability of the product.” (Senior Buyer, WB-A IPO)</p> <p>(Learn: indicator L1)</p>	<p>(Learn)</p>
<p><b>Chinese Supplier A</b></p>	<p>(NA)</p>	<p>“We suppose it is a long-term relationship. WB-A has been developing us into one of their core suppliers. We aim for long term cooperation because our targeted market is overseas market and we also need to do business with big Western companies with good reputation to develop our brand.” (GM, CS-A)</p> <p>(NA: indicator NA1)</p>	<p>“In order to enter the win-win situation, both Western buyers and Chinese suppliers aim for long term relationship.” (Account Manager, CS-A)</p> <p>(NA: indicator NA1)</p>

**Table 5–9: Adaptation to long term orientation of GR vs. short term orientation of WR**

### 5.3.3 Bilateral and Gradual Adaptation

The four key informants (IAAs) repeatedly claimed that their adaptation was normally a gradual upgrading process rather than a sudden movement from one state to another supporting a progressive relationship building process by both parties rather than a Guanxi style. As shown in table 5-10, the adaptation behaviours tend to change from the level of 'understand' to the level of 'adjust' or from "adjustment" to "learn", therefore they were gradual.

WB-A's IAAs adjusted to Yin-yang principle, personal informal nature and long term orientation of GR in the exploration stage and did not go through the 'understand' level, because they are Chinese nationals working for Western firms; therefore understood both cultures and the differences between them. CS-A's IAAs 'adjusted' to self interest, multiple institutions, and step by step nature of WR. It can be seen that both adapted in certain aspects; therefore the adaptation process was bilateral.

In the pilot study, it was proposed that: the cultural adaptation process is bilateral. The gradual nature of cultural adaptation did not emerge because there was no data collected from the exploration stage. Therefore the proposition developed from the pilot study can be revised as follows:

*P4: The cultural adaptation process is bilateral and gradual in nature.*

Stages		Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Behavioural differences</b>				
<b>Family orientation vs. self interest</b>		WB-A: <i>Understand</i> CS-A: <i>Understand</i>	WB-A <i>adjusts</i> to family orientation. CS-A <i>adjusts</i> to self interest.	WB-A: <i>Adjust</i> CS-A: <i>Adjust</i>
<b>Guanxi network vs. multiple institutions</b>		WB-A: <i>Understand</i> CS-A: <i>Understand</i>	WB-A <i>adjusts</i> to harmony within hierarchy feature of Guanxi network. CS-A <i>adjusts</i> to multiple institutions represented by Western operational rules and procedures.	WB-A: <i>Learn</i> CS-A: <i>Adjust</i>
<b>Guanxi relationship building vs. Western relationship building process</b>	<b>Flexible vs. progressive</b>	WB-A: <i>Understand</i> CS-A: <i>Understand</i>	WB-A <i>adjusts</i> to face and renqing. CS-A <i>adjusts</i> to step by step relationship building.	WB-A: <i>Adjust</i> CS-A: <i>Adjust</i>
	<b>Yin-yang principle vs. dualistic thinking</b>	WB-A: <i>Adjust</i> CS-A: <i>Understand</i>	WB-A <i>learns</i> Yin-yang principle. CS-A <i>understands</i> dualistic thinking.	WB-A: <i>Learn</i> CS-A: <i>Understand</i>
	<b>Personal informal vs. corporate to corporate formal</b>	WB-A: <i>Adjust</i> CS-A: <i>Understand</i>	WB-A <i>learns</i> informal personal nature of GR. CS-A <i>understands</i> formal corporate to corporate nature of WR.	WB-A: <i>Learn</i> CS-A: <i>Understand</i>
	<b>Long term vs. short term orientation</b>	WB-A: <i>Adjust</i> CS-A: <i>NA</i>	WB-A <i>learns</i> long term orientation. CS-A does not understand and adapt to short term orientation.	WB-A: <i>Learn</i> CS-A: <i>NA</i>

**Table 5–10: Data display matrix of cultural adaptation process**  
(NA: no adaptation; WB-A: WB-A's IAAs; CS-A: CS-A's IAAs)

### 5.3.4 Hybrid Cultural Interface

In the pilot study chapter, a higher level construct of hybrid culture of cultural adaptation process emerged. This construct is now being tested and propositions related to it are developed. First the existence of the hybrid culture is confirmed and nature of it is identified. Second it is related to the issue on who are the people adapted in both organizations of a partnership.

#### 5.3.4.1 Existence of a Hybrid Culture

In the pilot study, evidence suggests that there might be a hybrid culture formed at the interface between a Western buyer and a Chinese supplier as a result of cultural adaptation by both parties. It was proposed that (the propositions in the next paragraph indicate those developed in the pilot study chapter):

The combination of P1, P2, and P3 creates the most appropriate hybrid culture and produces the most mutual benefits for the partnership (P5). Those individuals who work closely with the other party and at the interface adapt culturally (P5a).

When the key informants were asked “is there a composite culture including elements from both Chinese and Western cultures developed between WB-A and CS-A?”, they all answered “yes”. The key informants were then asked what their understanding of the composite culture is. In general all perceive a hybrid culture to be one combining Western rule and procedures and Chinese Guanxi creating mutual benefits for the relationship. Evidence that a hybrid culture has developed can be seen in the following statements made by CS-A’s GM and Account Manager:

*“There is a hybrid culture. We have learned a great deal from WB-A including management skills, Western way of thinking and behaviours. As a matter of fact, the rules and procedures embedded in the Western culture are very effective. The reason why I was selected to be the General Manager is because the former one didn’t manage the company with procedures and therefore caused a lot of problems even chaos. We combined Western rules and procedures with our Chinese way of management.”* (GM, CS-A)

The GM here implicitly claimed that WB-A’s IAAs learnt how to build Guanxi with them, explicitly claimed that they have learnt Western rules and procedures and implied that applying Western rule and procedures into their own system is more effective; therefore the hybrid/composite culture that consists of Western rules and procedures and elements of Guanxi building process and creates benefits to both parties was formed. The meaning of ‘learnt’ here indicates that they have abandoned specific behaviours of their own culture and adapted to the specific behaviours of opposite culture. In this case, they have abandoned the behaviours of being flexible on rules and procedures and adopted the behaviours of following rules and procedures.

*“Yes, there is one between us. What I learned from WB-A is that companies require rules, regulations and procedures. This is the biggest difference between Western and Chinese companies. Chinese companies emphasize a leader’s charisma and Guanxi.”*

*Chinese tend to be more flexible and clever and don't like to follow rules and procedures. This may make things easier and get things done faster but it is not suitable for an enterprise... There are some changes of WB-A that sometimes follow our way of doing things. They learn from us the way to deal with Chinese such as how to build up Guanxi.”(Account Manager, CS-A)*

The Account Manager explicitly stated the nature of the hybrid culture as one including Western rules and procedures and Guanxi.

Further evidence was provided by the Sourcing Manager and the Senior Buyer of WB-A. The modern enterprise system mentioned by the Senior Buyer below contains the same meaning as Western rules and procedures as referred to by the CS-A's Account Manager.

*“Building Guanxi is very important for Western firms to succeed in China; however this personal relationship could not be too close and should not put beyond rules and procedures. One should not trust a supplier completely. For example, when they have quality problem, I gave business to our backup supplier and told this supplier that we are very concerned about their problems.” (Sourcing Manager, WB-A)*

The Sourcing Manager here claimed that they followed the rules and procedures closely and built Guanxi with CS-A indicating that a hybrid culture including elements of both cultures was formed.

*“For CS-A, they learn modern enterprise system, which means: 1) the separation of ownership and management of the company; 2) accept Western modern management models and technologies; 3) build up an organizational culture adapting to global competition; 4) financial department should be independent from other departments of the company; 5) there is a need for the integration of different departments in the company...For us, we understand the Chinese culture, adapt to Guanxi critically and respect Chinese suppliers. We don't look down at them because we are Western firms. We respect them and learn from them. This is because Chinese pay a great deal of attention to 'face'. Therefore we kind of mix the two aspects.” (Senior Buyer, WB-A)*

The Senior Buyer here indicated detailed rules and procedures to which CS-A's IAAs have adapted and that WB-A's IAAs have learnt elements of Guanxi building indicating that a hybrid culture was formed between them.

It seems that the nature of the hybrid culture consists of elements of both cultures: Western rules and procedures from Western culture and elements of Guanxi from Chinese culture. For Western buyers, the rule is that they should 'learn' and build Guanxi with Chinese suppliers, but should not cross the line to compromise Western firms' rules and procedures. For Chinese suppliers, they should integrate Western rules and procedures into their own cultural system i.e. Guanxi network.

The findings tend to support P5 developed in the pilot study. The wording of P5 of the pilot study is revised. P5a is developed in relation to the nature of the hybrid culture.

*P5: Cultural adaptation creates a mutually beneficial hybrid culture that exists at the interface between Western buyers and their Chinese suppliers.*

*P5a: The hybrid culture is a combination of Western rules and procedures and Guanxi.*

#### **5.3.4.2 Who Adapts?**

Key informants were also asked “*who are the people adapting to each other and creating the composite culture?*” They without exception claimed that cultural adaptation is mainly carried out by those working for the WB-A’s IPO and the Account Managers and the GM of CS-A, who work closely with each other and that others in their company do not understand the cultural behavioural differences. This is consistent with my observation. The WB-A’s IAAs also argued that the role of IPO is a bridge or link between Western subsidiary/headquarter in the West and Chinese suppliers and its function is to monitor and train Chinese suppliers on Western rules and requirements and to train Western subsidiary/headquarter in the West on Guanxi.

The remaining two informants interviewed (a WB-A site buyer based in the US and the Logistics Manager of CS-A) did not appear to understand most of the cultural behavioural differences between China and the West. This provides additional evidence to support that those individuals at the interface between the two organisations are the agents of cultural adaptation and responsible for the creation of a hybrid culture.

The following proposition is developed in relation to IAAs.

*P5b: Interface Active Agents (IAAs), who across the Western buyer and Chinese supplier interface interact closely with each other, are most likely to adapt culturally resulting in the creation of a hybrid culture.*

#### **5.3.4.3 Trans-cultural**

In the pilot study chapter, trans-culturalists were defined as those “who grow beyond their own cultural socialization so that they can understand different cultures with minimal bias and make valid cross-cultural judgments” (Graen and Hui, 1996: 68). Bennett (1993) also proposes a concept of bicultural as effortlessly adjusting behaviour to suit the culture of the people they are with-style switching. It can be seen that these two concepts describe the same type of individuals.

The Sourcing Manager of WB-A’s IPO showed his deep understanding of both cultures and made valid judgments on cross-cultural issues. He can also switch between Chinese and Western styles effortlessly.

For example, commenting on the adaptation to Guanxi network, he stated that: “*In the West, they talk about networking but it is embedded in the procedures. Westerners believe that procedure is paramount and help build successful relationship. Chinese, on the contrary, put Guanxi first and build Guanxi before doing business. They follow different rules of game.*”

This shows his deep understanding of the cultural behavioural differences between China and the West.

In the adaptation to the flexible nature of GR, he stated that:

*“For example, for Chinese it is not important to sign a contract or not. It is important for him to trust you. If he trusts you, even if he does not read the contract, he will sign it. On the contrary, Westerners feel they get some kind of protection once the contract is signed, then the relationship can move on. If you don’t sign it, the relationship never starts. This is to say Western companies pay attention to procedures and build relationship based on incremental successful transactions step by step. Chinese companies are governed by individuals not by procedures. Chinese put Guanxi ahead of business and make decision to do business with someone based on personal feelings. If I don’t feel good about you, I don’t do business with you. It’s all about personal trust.”*

This not only shows his deep understanding of cultural difference but also has practical implications. Based on this, he is able to switch between Chinese and Western styles effortlessly.

In the adaptation to long term orientation, he commented that:

*“The Senior Buyer and I have developed CS-A what it is now therefore I am familiar with this supplier. At the beginning of the relationship, everything was not going well mainly because our buyers based in the US were short term orientated, which made CS-A not very interested in our business. We IPO changed the relationship building strategy from short term to long term and have developed CS-A into one of our core suppliers.*

This shows that he was able to make valid cross-cultural judgments i.e. when dealing with Chinese suppliers, it is necessary to build long term relationship with them.

The Senior Buyer of the IPO also corroborated this argument that the Sourcing Manager is very smart and has deep understanding of the cultural differences between China and the West. The evidence shows that the Sourcing Manager fits with both definitions of trans-cultural and bicultural, therefore is treated as a trans-cultural.

#### **5.4 Relationship between Cultural Adaptation and Mutual Benefits**

In answering the second research question, the findings from this case show that mutual benefits grow over time due to cultural adaptation.

All key informants answer ‘yes’ to the question: *“Have mutual benefits of the relationship grown due to cultural adaptation of both parties?”*

In tables 5-11 and 5-12, quotes from the interviews with case A’s IAAs are presented. These quotes are extracted from their answers to the interview questions on how both parties adapt to each other in terms of the three cultural behavioural differences. The key informants from both parties perceived all the mutual benefits identified from literature.

Mutual benefits	Quotes
Cost reduction benefits	<i>“When Western firms source from China, they are normally satisfied with the savings. The lowest savings we have got is 30% cost reduction. One project I just finished has 74% saving.”</i> (Senior Buyer, WB-A IPO)
Relationship effectiveness	<i>“CS-A is a good example. They have been actively participating the online bidding and improving their production capacity and quality at the same time. They have been doing an excellent job.”</i> (Senior Buyer, WB-A IPO)
Flexible adaptation	<i>“When we deal with our Chinese suppliers, we won't do it at arm's length. We are flexible and adapt to Chinese suppliers when we find that the supplier is worthy of building long term relationship with.”</i> (Senior Buyer, WB-A IPO)
Collaboration	<i>“Because our business with them grows rapidly from latter half of 2006 and whole 2007, they encountered some quality control difficulty. Since latter half of 2007, we went to their factory many times, identified a list of problems and asked them to address them within 3 months. By the end of 2007, they had a much better quality system. They invested a lot in a new plant specifically designed for WB-A's business initially. We also put a lot of effort into helping them improve the communication with American plants and address the quality control problem.”</i> (Senior Buyer, WB-A IPO)
Trust	<i>“At the beginning, they did not pay much attention to us. We then introduced our brands, products and company culture and got to know each other. After several meetings and small business trials, we all felt that we can trust each other personally. It is important to be honest and committed to the relationship when building the relationship.”</i> (Senior Buyer, WB-A IPO)
Guanxi quality	<i>“The vice president and I have become personal friends now. I can talk to him about my personal life. If there is something happening in the relationship between the two companies he will help me out.”</i> (Senior Buyer, WB-A IPO)

**Table 5–11: WB-A's perception of mutual benefits**

Mutual benefits	Quotes
Cost reduction benefits	<i>“They helped us solve our manufacturing and quality problems therefore reducing our cost of manufacturing the products. Therefore we also benefit from the cost reduction.”</i> (GM, CS-A)
Relationship effectiveness	<i>“We are satisfied with the relationship with WB-A. There is a high level of commitment between us.”</i> (Account Manager, CS-A)
Flexible adaptation	<i>“We could give up holidays for on time delivery for them. This is one of the reasons they chose us. We are more flexible than Western suppliers. As I said, both of us are flexible on working things out and we adapt to each other.”</i> (GM, CS-A)
Collaboration	<i>“We work together to solve problems and share information.”</i> (Account Manager, CS-A)
Trust	<i>“We can trust each other from early days.”</i> (Account Manager, CS-A)
Guanxi quality	<i>“We have a very good Guanxi with WB-A now and we are friends.”</i> (GM, CS-A)

**Table 5–12: CS-A's perception of mutual benefits**

A questionnaire of mutual benefits was designed for the key informants to fill out on site in order to triangulate the qualitative data collected in interviews. All the six mutual benefits identified from literature are listed on the questionnaire and the key informants were asked to identify in which stage of the relationship, the mutual benefits were

perceived. There are a number of statements/measurements relating to each of the six items of mutual benefits. The key informants were asked to rate each statement on a scale from 1 to 5 whether they strongly agree (5) or strongly disagree (1) for each of the six items of mutual benefits except for Guanxi quality, which only has three values (Stranger, familiar and family Guanxi).

The findings presented in table 5-13 show that at the exploration stage of the relations, there was no perception of any mutual benefits. At the expansion stage, all the IAAs perceived some of the mutual benefits and at the commitment stage, the rest of the mutual benefits were perceived indicating increased items of mutual benefits by the IAAs over time.

Relating table 5-13 to table 5-10, it is found that at the exploration stage, IAAs from both parties started adapting culturally while there was no mutual benefits perceived; at the expansion stage, the level of cultural adaptation increased as Case A's IAAs gradually adapted to each other and some mutual benefits were perceived. In the final stage of commitment, the level of cultural adaptation stay the same as that in expansion stage but the rest of the mutual benefits were perceived. It can be seen that cultural adaptation always preceded mutual benefits perceived indicating a probable causal relationship between the two.

Miles and Huberman (1994) claim that qualitative researchers are always interested in events: what they are, when they happened, and what their connections to other events in order to preserve chronology, through which researchers may see patterns and causal links. Contrary to the conventional view seeing qualitative analysis only good for exploratory forays, they consider it to be a very powerful method for assessing causality. One of the causalities explained by them is temporality, meaning that A always before B not reverse. In this case, cultural adaptation always preceded mutual benefits, indicating a causal link between them.

Table 5-14 shows that the average scores are four or above four, indicating a high level of perceived mutual benefits by both parties. All the IAAs perceived the quality of Guanxi as a familiar Guanxi.

In the methodology chapter, it was proposed that:

*The more both parties adapt culturally, the greater the mutual benefits.*

Based on the evidence collected, this proposition is supported and refined as:

*P6: As a relationship develops toward the commitment stage, if the level of cultural adaptation increases, it is likely that perceived mutual benefits also increase.*

<b>Process \ IAAs</b>	<b>Sourcing Manager (WB-A)</b>	<b>Senior Buyer (WB-A)</b>	<b>VP (Account Manager) (CS-A)</b>	<b>General Manager (CS-A)</b>
Stage 1: Exploration	No mutual benefits	No mutual benefits	No mutual benefits	No mutual benefits
Stage 2: Expansion	Cost reduction benefits Familiar Guanxi Flexible adaptation Collaboration	Cost reduction benefits Familiar Guanxi Flexible adaptation	Cost reduction benefits Familiar Guanxi Trust	Cost reduction benefits Familiar Guanxi Trust Collaboration
Stage 3: Commitment	Relationship effectiveness Trust	Relationship effectiveness Trust Collaboration	Relationship effectiveness Flexible adaptation Collaboration	Relationship effectiveness Flexible adaptation

**Table 5–13: Mutual benefits over time by key informants**

<b>IAAs \ Mutual benefits</b>		<b>Cost reduction benefits</b>	<b>Relationship effectiveness</b>	<b>Flexible adaptation</b>	<b>Collaboration</b>	<b>Trust</b>	<b>Guanxi quality</b>
WB-A	Sourcing Manager	4.00	4.80	3.75	3.75	4.25	Familiar
	Senior Buyer	5.00	4.80	4.25	4.50	4.50	Familiar
	Average score	4.50	4.80	4.00	4.13	4.38	
CS-A	Account Manager	3.67	4.00	4.25	3.50	4.00	Familiar
	General Manager	4.67	4.60	4.00	4.50	5.00	Familiar
	Average score	4.20	4.30	4.13	4.00	4.50	
Overall Average		4.34	4.55	4.06	4.06	4.44	

**Table 5–14: Perceived mutual benefits rated by key informants at the commitment stage**

The results shown in table 5-13 indicate that key informants from the same company had similar perceptions on when the mutual benefits were obtained and those from different companies perceived differently, which is expected. The reason for this might be due to different expectations of each company.

Table 5-14 shows that the Account Manager of CS-A perceived four of the five lowest scores. As indicated earlier, he is the one who is most concerned about the success of CS-A, and therefore this may explain his over critical viewpoint i.e. his perception of the mutual benefits is less than that of the other key informants.

## **5.5 Chapter Summary**

This case has supported and developed a number of propositions in relation to the two research questions. Answering the first research question, it is shown that the cultural adaptation process is a gradual bilateral process. There is a hybrid culture formed as a result of cultural adaptation, which is a combination of Western rules and procedures and Chinese Guanxi. It is also found that only Interface Active Agents (IAAs) who are at the interface of the two companies and interact frequently with each other adapt culturally.

In answering the second research question, the qualitative data support that cultural adaptation has positive impact on the mutual benefits gained. That is to say, as the level of the cultural adaptation increases, the mutual benefits increase as a result.

This first case confirmed the validity of the conceptual framework, while providing data to support and further develop the propositions developed in methodology and pilot study chapters. A set of propositions have been developed and need to be tested in latter cases.

## **Chapter 6 : Case B Analysis**

### **6.1 Introduction**

The case of Western buyer B and Chinese supplier B was the second case analyzed. The reason for this was that the author considered this case to be a good example of partnership between a Western buyer and a Chinese supplier, which could potentially achieve literal replication of the results obtained from case A. Hence the aim of this case analysis is to test the propositions developed from literature, the pilot study and case A using a replication logic (Yin, 2003).

Following the same structure as adopted in chapter 5 for case A, this case starts with a discussion of the context of the relationship between Western buyer B and Chinese supplier B in section 6.2, before presenting the findings on the cultural adaptation process and hybrid culture in section 6.3. In section 6.4, findings on the relationship between cultural adaptation and mutual benefits are elaborated. Section 6.5 summarizes the chapter.

### **6.2 Contextual Considerations**

#### **6.2.1 Western Buyer B**

Western Buyer B (WB-B) is a multinational Fortune 500 company headquartered in the US and operates and serves customers around the globe. WB-B has developed from just an engine business to a global power leader with more than \$14 billion in annual sales and employs 34,000 people in 2008. They have a family of four inter-related, yet diversified businesses: the Engine Business, Power Generation Business, Components Business, and the Distribution Business, which share common distribution systems, such as power generation and engines, as well as technology.

WB-B, led by its visionary leader, forged strong ties to emerging countries such as China, India and Brazil, where WB-B had a major presence before most other US multinational companies. WB-B has grown into one of the largest engine makers in both China and India, and in 2003 more than 59 percent of the Company's sales were generated outside the United States.

WB-B set up its East Asia IPO in Shanghai, China in 1998 catering to the increasing demand of its sourcing from China. The three individuals involved in the relationship in the IPO are the Purchasing Director - head and founder of the IPO, a Sourcing Manager, and a Senior Buyer. The Purchasing Director is a British serving WB-B for 20 plus years and served as the General Manager of a joint venture between WB-B and a Chinese company in the 1990s. Then he was requested by WB-B's headquarter to set up the East Asia IPO in China, which is one of four in total worldwide. The Purchasing Director reports directly to the Group Vice Sourcing Director based at headquarter and is the only expatriate in the IPO. The Sourcing Manager and the Senior Buyer selected for interview are Chinese nationals.

According to the Purchasing Director, the IPO managed 19 suppliers in China covering all range of WB-B's products. The parts that WB-B sourced from the Chinese supplier B in this case is engine cooling system used for various engines such as those of automotive and construction machinery. The products purchased from the Chinese supplier B are of high volume, high product complexity but low variety.

Two informants from a UK subsidiary of WB-B were selected. They belong to the Supplier Development Department of one of the WB-B's plants in the UK.

### **6.2.2 Chinese Supplier B**

Chinese Supplier B (CS-B), located at a county of Zhejiang Province, China, was a State Owned Enterprise (SOE) built in 1958. Thank to the economic reform since 1980s, it was privatized in 1998 and went into fast development since then. In 1999, they had an annual turnover of 30 to 40 million RMB. CS-B's revenue reached 1 billion RMB (0.14 billion USD; 1USD= 7RMB) and employed 1800 people in 2008.

The location of CS-B is considered a hinterland although the Zhejiang province surrounding Shanghai is considered one of the richest provinces in China and together with Shanghai and Jiangsu province forms the famous Yangzi River Delta, which is one of the two most economically advanced areas in China. The county is one of the tourist destinations in Zhejiang especially famous as the origin of a school of Buddhism. It is surrounded by mountains and it is difficult for rails to be built; therefore the best transport to get there is by car.

The President (English title shown on his business card) served the company since 1975 starting from front line worker to plant manager in 1987. He was elected the President of CS-B since its privatization in 1998.

CS-B has been No.1 engine cooling system manufacturer in China since 2001. Its products are recognized by the Chinese government as those exempted from inspection showing the government's confidence on the quality of its product. In China, the industrial products must be inspected by a government agency called the Bureau of Quality Supervision, Inspection and Quarantine before they are sold in the market.

Thanks to the vision of the President, who foresaw the potential of overseas automotive market, since 1993, CS-B has started developing its overseas market and became a strategic supplier of an American company soon afterwards. Gaining many experiences working with this foreign customer, CS-B started working with a joint venture between WB-B and a well known Chinese automotive company in 1997, which then recommended CS-B to WB-B in 1998. In order to become WB-B's supplier, CS-B invested 5% of its revenue in R & D since 1998 cooperating with top research universities in Shanghai to meet the quality standards required by WB-B for its products. After the experiments in WB-B's headquarter, the sample products provided by CS-B were rated higher in term of major quality criteria than those from WB-B's existing local suppliers in 2000. Therefore, CS-B became a member in the WB-B's worldwide supplier list.

In 2007, CS-B was listed in one of the two Chinese stock markets. It was one of the exemplary suppliers in China therefore was elected a representative of Chinese suppliers in the WB-B's supplier council. With the expansion of CS-B's business, it started serving other multinational including WB-B's competitors in recent years. Exporting now takes 75% of its revenue. CS-B was so powerful that it only chose to work with the big names in automotive industry.

### 6.2.3 WB-B and CS-B Relationship

#### 6.2.3.1 Background-the Relationship

WB-B and CS-B started trading in 1998. Almost 90% of WB-B's engine cooling system was sourced from CS-B when the research was conducted in 2008. The IPO consists of six departments, which were further divided into 14 groups. Each group is responsible for one product range. The individuals involved in this relationship belong to the Assembly Parts Group. The Sourcing Manager was the leader of this group and was involved in the WB-B and CS-B relationship together with the Senior Buyer. The Senior Buyer of WB-B reports to the Sourcing Manager, who in turn reports to the Purchasing Director. The Chief Quality Engineer, the Chief Engineer and the Project Team leader report to the President and GM of CS-B. These five individuals form the top management team of CS-B. The Project Team Leader of CS-B is in charge of the project team originally built for WB-B's business within CS-B.

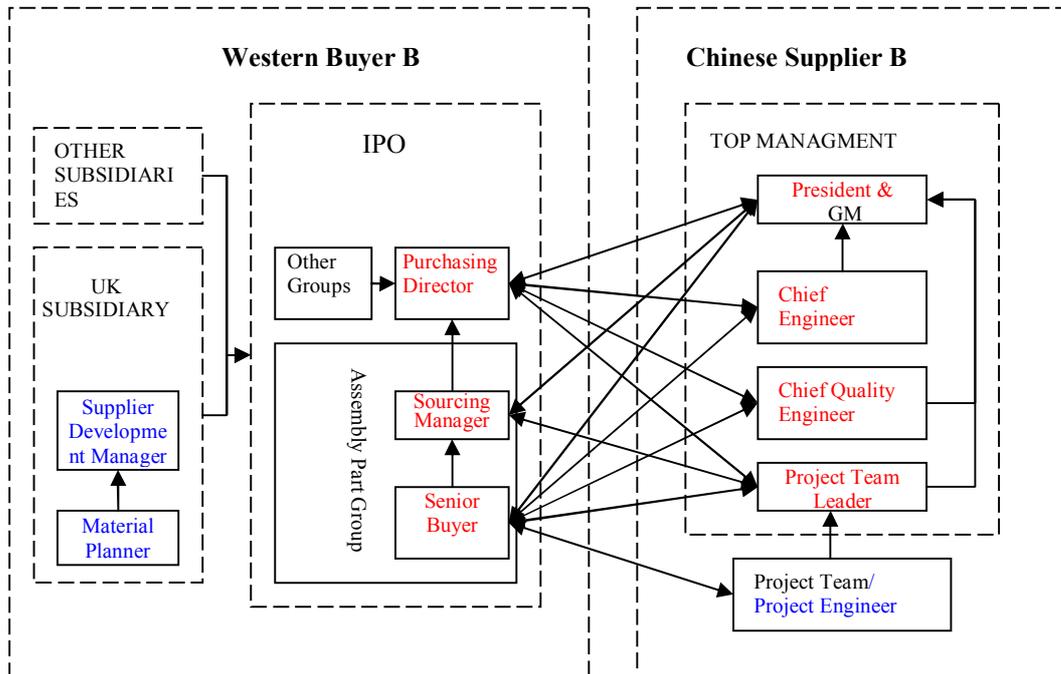


Figure 6-1: WB-B and CS-B interface

There are ten informants highlighted in red and blue in figure 6-1. The seven key informants marked in red include: the Purchasing Director, the Sourcing Manager, the Senior Buyer of WB-B and the President, the Project Leader/Deputy Chief Engineer, the Chief Engineer and the Chief Quality Engineer of CS-B. The remaining informants marked in blue include the Supplier Development Manager and the Material Planner of

a UK subsidiary of WB-B and one of the Project Engineers of CS-B. The reason for selecting the President rather than the General Manager was that the President has been managing the company since 1987. The General Manager was hired when the company was listed in one of the two Chinese stock markets in 2007, so he did not have enough knowledge about the relationship with WB-B.

WB-B's IPO IAAs and CS-B's top management interacted frequently, on average fortnightly. CS-B's project team, including a number of project engineers reporting to the Project Team Leader, only interacted with the Senior Buyer of WB-S's IPO. The Project Team Leader was also the Deputy Chief Engineer; therefore he was a member of the top management team. WB-B's UK subsidiary and other WB-B's subsidiaries interacted with CS-B for daily operations via email and fax. The UK subsidiary of WB-B also sent quality control and purchasing personnel to visit CS-B and IPO every year.

The Supplier Development Manager visited the IPO and Chinese suppliers in China once a year. The Material Planner has never been to China and only interacted with Chinese suppliers through emails. The Project Engineer of CS-B has never been to the UK. If the UK subsidiary needed to visit CS-B, they asked the IPO for help. They interacted frequently with the IPO.

### 6.2.3.2 Assessment of the Relationship against Case Selection Criteria

This section aims to demonstrate the fit of this dyad with the case selection criteria. Table 6-1 shows that: 1) WB-B has an IPO in Shanghai, China; 2) this relationship exists in the automotive manufacturing industry; 3) WB-B is a US based company and has a UK subsidiary dealing with CS-B; 4) WB-B is a fortune 500 engine manufacturer with 34,000 employees worldwide. While this case clearly meets the first four case selection criteria, the following results and discoveries serve to demonstrate that the fifth criterion has been met.

Case selection criteria	WB-B and CS-B relationship
1. Western buyer has an IPO in China.	WB-B has an IPO in Shanghai, China
2. Dyad is from manufacturing industry.	Yes, automotive manufacturing
3. Western buyer has a subsidiary or headquarter in the UK or US, which deals with the Chinese supplier.	WB-B is headquartered in the US and has a UK subsidiary trading with CS-B.
4. Western buyers are selected from Large scale Western manufacturers	WB-B is a fortune 500 engine manufacturer with 34,000 employees worldwide.
5. Dyad is in the commitment/partnership stage.	Yes (details to follow)

**Table 6-1: Assessment of case selection criteria**

Again, the key informants were asked to rate the six statements of partnership and four characteristics of commitment. Table 6-2 shows that both parties agreed that their relationship was a partnership because the average scores for each are all 4 or more.

IAAs Statements	Sourcing Director (WB-B)	Sourcing Manager (WB-B)	Senior Buyer (WB-B)	Project Team Leader (CS-B)	Chief Engineer (CS-B)	Chief Quality Engineer (CS-B)	President (CS-B)
Commitment in the relationship	5	5	5	5	3	5	5
Sharing of information	4	4	3	5	4	4	5
Sharing of risks and rewards	4	4	5	3	4	3	4
High level of interdependence	4	5	4	3	4	4	5
Compatible goals	3	4	3	4	5	4	5
Striving for mutual benefits	4	5	4	4	5	4	5
<b>Average score</b>	4.0	4.5	4.0	4.0	4.2	4.0	4.8

**Table 6-2: Average scores on 6 items of partnership rated by key informants**

All the IAAs agreed that there is a high level of input into the relationship from both parties; senior management of both parties were involved and there were dedicated personnel from both parties to the relationship; the relationship has lasted for 10 years; and the purchase of WB-B from CS-B increased to maximum and CS-B continuously invested in the business with WB-B (table 6-3). WB-B sourced over 90% of the engine cooling system from CS-B, making it a sole supplier for oil cooling system worldwide. Moreover, they all purposely engaged resources, personnel, equipment and investments to maintain the relationship. Since WB-B was CS-B's No.1 account, CS-B was motivated to keep the relationship going.

Commitment characteristics	WB-B	CS-B
Level of inputs	High Dedicated personnel (Senior Buyer of IPO) and senior management involvement	High Dedicated project team and senior management involvement
Duration of the relationship	10 years	
Consistency of the input	The purchase increased to maximum. Over 90% of oil coolants were sourced from CS-B.	Have been continuously investing in the business with WB-B.
Purposely engaged resources to maintain the relationship	Yes. The aim of WB-B was to maintain the relationship with CS-B as a strategic partnership and set up a good example of partnership with Chinese suppliers.	Yes. WB-B was No.1 account; therefore it was keen to engage any available resources to maintain the relationship.

**Table 6-3: Commitment characteristics of WB-B and CS-B**

Based on this analysis, it is concluded that the relationship was a partnership and in the commitment stage; therefore the fourth case selection criterion is met.

### 6.3 Cultural Adaptation Process

In this section, adopting the same structure as last chapter, first the time periods of the three stages of the relationship are identified. Then the findings on the cultural adaptation processes in terms of the three cultural behavioural differences and the hybrid culture are presented.

### 6.3.1 Three-stage Relationship

CS-B started trading with a joint venture between WB-B and a Chinese company in 1997. The relationship between WB-B and CS-B started in 1998, when CS-B negotiated with WB-B to become one of WB-B's worldwide suppliers. After almost two years' negotiation and preparation, CS-B successfully passed WB-B's sample test and finally became WB-B's qualified supplier in 2000. WB-B increased purchase significantly from CS-B since 2001. Their relationship became a partnership in 2004.

The President of CS-B, who has gone through the whole development process of CS-B, stated clearly the three stages of their relationship with WB-B.

*"I visited WB-B headquarter in the US in 1997 and then we negotiated with them in 1998. In 2000, WB-B intended to source three parts from three Chinese suppliers. We are one of the three companies. Based on their requirements, we made the sample ready in 66 days for WB-B to evaluate. Our products were brought to US for test and trial in several plants. Those plants liked our products, which were then introduced to other plants."*

*"Our business with WB-B grew significantly since 2001, when our revenue was tens of million RMB. Our revenue reached 200 to 300 million RMB in 2003 and now (2008) we have a revenue nearly 1 billion RMB. Our success relies on WB-B to a great extent. Without WB-B, we can not achieve what we have today. And we appreciate WB-B as our first platform of development. We won't forget WB-B's help to us."*

*"We became a core supplier of WB-B in 2004. When WB-B sourced engine cooling system for its 180,000 engines manufactured for its biggest customer's Pica (Pick-up) cars, we knew WB-B did not just consider us a qualified supplier."*

The President's view was corroborated by the Senior Buyer of WB-B.

*"We actually started sourcing from CS-B in 2000. From 2001 to 2003, our relationship grew very fast in the sense that we increased our purchase orders from them significantly. At that time, we had a lot of new projects and CS-B was in the stage of fast development. We were the only international customer of them; therefore they put their full efforts to maintain and develop the relationship. CS-B became our core supplier since 2004, because we have sourced almost all the engine cooling systems we need worldwide from them since then."*

The evidence presented suggests that the relationship between WB-B and CS-B can be divided into three stages as follows:

- Exploration stage: 1998-2000
- Expansion stage: 2001-2003
- Commitment stage: 2004 onward

## 6.3.2 Adaptation to the Cultural Behavioural Differences

### 6.3.2.1 Adaptation to Family Orientation vs. Self Interest

As shown in table 6-4, both the Sourcing Manager and the Senior Buyer are Chinese nationals and claimed that they ‘understood’ this difference at the beginning of the relationship and that their boss, the British Purchasing Director, has been working in managerial roles in China for many years and has learnt about Chinese culture by reading books about China and interacting with Chinese people frequently (U3). He has also been training his Chinese staff on the cultural differences between China and the West and how to deal with Chinese suppliers. As I observed, this is the case for all other cultural behavioural differences. This suggests that WB-B’s IAAs ‘understood’ this difference at the exploration stage.

The Senior Buyer of WB-B also claimed that WB-B’s IAAs changed from celebrating achievements as individuals to celebrating as a team in 2002, when the relationship at expansion stage. The Sourcing Manager claimed that WB-B’s IAAs had to stress more and more the collective efforts and company’s interests. The adaptation of WB-B to the collective behaviour was corroborated by CS-B’s IAAs. The IAAs from both parties mentioned that WB-B’s IAAs at the time of the major field research conducted had to adapt indicating that they adopted the collective behaviours consistent with Chinese culture reactively (A1); therefore they ‘adjusted’ to family orientation at the expansion and commitment stages.

The Project Team Leader showed his understanding of this difference and claimed that CS-B’s IAAs ‘understood’ this difference at the exploration stage of the relationship (U2 & 3).

The Chief Quality Engineer of CS-B claimed that CS-B’s IAAs were required by WB-B to improve their employee’s welfare from time to time and had to adapt to this after 2001. This was corroborated by the Senior Buyer of WB-B, who claimed that WB-B pay much attention to employee’s career development, welfare and safety and actually pushed CS-B to do the same. The Project Team Leader claimed that they adapted to this in 2002, when the relationship was at the expansion stage. The President of CS-B claimed that they had to pay more attention to individual employees’ welfare and safety and respected employee’s rights because they worked with WB-B at the time of the major field research conducted. The evidence indicates that CS-B’s IAAs adopted the more self interested behaviours consistent with Western culture reactively (A1); therefore this suggests that they ‘adjusted’ to self interest at the expansion and commitment stages.

As the relationship develops toward the commitment stage, WB-B’s IAAs adjusted to family orientation and CS-B’s IAAs adjusted to self interest. Therefore P1, which is described as ‘*As a relationship develops toward the commitment stage, interface active agents (IAAs) from both parties adjust to each other in terms of family orientation vs. self interest*’, is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p><i>“But I think we understood this from the beginning of the relationship because our boss, the Purchasing Director, has been in China for more than 10 years and understand Chinese culture very well. He has been training us on the cultural differences and has told us on how to deal with Chinese suppliers. I personally understood this soon after I joined WB-B in 2000.”</i> (Senior Buyer, WB-B IPO)</p> <p><i>“The Purchasing Director used to be the General Manager of a joint venture between WB-B and a Chinese company. He underwent the whole process for the company turning from a JV to a wholly owned operation of WB-B in China; therefore he has deep understanding of Chinese enterprises and Chinese people. We understood this difference from the beginning of the relationship.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Understand: indicator U3)</p>	<p><i>“CS-B employees have the mindsets of collectivism therefore have strong sense of honour and belongings to the company. WB-B’s IPO encourages individual employees to explore their potential and create greater value for the company and stresses personal career development, personal safety and welfare. However it is difficult to distinguish collectivism and individualism due to cultural adaptation and convergence, which have taken place. The IPO set up short term and long term plan for the whole team. Once the objectives are accomplished, we celebrate as a team. This is different from what we did at the beginning of the relationship, when we were an extension of plants based in the West, in which achievements tend to be attributed to specific individuals. This is perhaps what we have to adapt to Chinese culture. CS-B management pays more attention to personal development and safety than at the beginning of the relationship...This is a gradual adaptation process. We could adapt to each other in 2002.”</i> (Senior Buyer, WB-B IPO)</p> <p>(Adjust: indicators U2 &amp; A1)</p>	<p><i>“There are more and more multinational companies coming to China, which has a great influence on Chinese companies. For examples, CS-B management pays more attention to the personal achievement. The IPO has to stress collective efforts more and company’s interests in order to maintain a good relationship with CS-B. CS-B and we adapt to each other.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier B</b>	<p><i>“When WB-B came to China, it had to adapt to our collectivism for example IPO adapted by working overtime and stressing the sense of collective achievement. We also adapt to them i.e. we gave more freedom to the employees and respected their individual rights. We understood this soon after the relationship started and adapted to this in around 2002.”</i> (Project Team Leader, CS-B)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p><i>“I think we adapt to each other. To develop a good partnership, both parties have to be compatible in terms of goals and culture. This is the case for WB-B and CS-B. We have compatible goals and our cultures converge a great deal. We have been required by WB-B to improve the welfare of our employees such as safety and working conditions. I assume Western companies pay much attention to individual rights. We had to adapt to their requirements on this in order to be a qualified supplier after WB-B increased their purchase from us in 2001.”</i> (Chief Quality Engineer, CS-B)</p> <p>(Adjust: indicators U3 &amp; A1)</p>	<p><i>“We have different understanding of family. For Chinese, wherever they are, they have strong association with the place where his extended family is. Americans move home a lot and don’t have the concept of extended family. When Americans come to China, they have to adapt to the Chinese way. In our side, we also follow the Western way and tend to focus more on the employee’s welfare. We all have to adapt to each other in this aspect.”</i> (President, CS-B)</p> <p>(Adjust: indicator A1)</p>

**Table 6–4: Adaptation to Family Orientation vs. Self Interest**

### 6.3.2.2 Adaptation to Guanxi Network vs. Multiple Institutions

Table 6-5 shows that the Purchasing Director of WB-B has had many experiences working with Chinese companies before he set up the IPO. His statement showed his deep understanding of this difference (U2). The Sourcing Manager and the Senior Buyer of WB-B are Chinese nationals and have been trained on cultural differences by the Purchasing Director. The Senior Buyer understood the term Guanxi, showed his understanding of this difference and claimed that WB-B's IAAs 'understood' this difference at the beginning of the relationship (U1 & 2).

The Purchasing Director claimed that the IPO initially failed to implement six-sigma in CS-B by approaching middle managers rather than the top management and then succeeded by persuading CS-B's top management to implement six-sigma tools in 2002 when the relationship was at expansion stage. In line with indicator A1 in table 4-9, this indicates that WB-B's IAAs had to respect the behaviour feature of hierarchy of Guanxi network consistent with Chinese culture reactively because they 'feel right' (A1); therefore WB-B's IAAs 'adjusted' to Guanxi network featured by harmony within hierarchy at the expansion stage.

The three IAAs of WB-B claimed that showing respect to Chinese people, keeping harmony with them and interacting with top management are the key to relationship success in China. I also observed when I accompanied the Senior Buyer visiting CS-B, the Senior Buyer often went to the Project Team Leader and the Chief Quality Engineer of CS-B for support. The Purchasing Director and the Sourcing Manager of WB-B only met and kept good relationship with the top management team of CS-B at the time when the research was conducted. In line with the indicator L1 in table 4-9, this suggests that they used knowledge of the other culture proactively. The IPO's IAAs visited CS-B regularly and willingly (L2) and expressed interest in the Chinese culture (L3) at the time when the research was conducted. All these behaviours indicate IPO's IAAs have 'learnt' Guanxi network featured by harmony within hierarchy at the commitment stage.

CS-B's Project Team Leader showed his understanding of this difference and claimed that they gradually built up a level of 'understanding' of WB-B's requirements at the beginning of the relationship (U2). The President and the Chief Quality Engineer also showed their understanding of this difference at the time of the interviews. The evidence suggests that CS-B's IAAs 'understood' this difference at the exploration stage of the relationship.

All the key informants of CS-B agreed that CS-B has been gradually adopting Western rules and procedures and recognized that this has been crucial to CS-B's success. The President and the Chief Quality Engineer claimed that they have had to follow WB-B's rules and procedures since about 2001, which was corroborated by the Purchasing Director and the Senior Buyer of WB-B. This indicates that CS-B's IAAs adopted the behaviour of following Western rules and procedures reactively (A1); therefore they 'adjusted' to this at the expansion stage.

The author was shown around the factory by a Project Engineer of CS-B. The environment was very similar to what I have seen in the UK; the factory was modern

and neatly organized. Kanban was in place as well as TQM. I noticed that six-sigma charts on notice boards in the factory visited. It seemed that these modern techniques have been implemented in the factory.

However this was just a show according to the Senior Buyer of WB-B at the time of the major field research, who claimed that CS-B has not actually implemented those modern tools and techniques. They were there for WB-B's annual auditing only. This suggests that the level of implementation of these modern tools and techniques was, if not absent, superficial as indicated in the following quote:

*"I think that Chinese privatized enterprises develop too fast, which cause problems. Fundamentally they (CS-B) can only learn some superficial modern management techniques and procedures. For example, you will find they have a lot advanced stuff like six-sigma, 5s and lean manufacturing; however you only find some frameworks. It is rarely seen for them to implement those tools, which are mainly for the annual audit from us. If they implement these tools, they will develop very well. Of course this is a gradual improvement process. It has just been 8 years from them to develop from a shabby state owned enterprise to world influential oil cooling system manufacturer. Their improvement is significant." (Senior Buyer, WB-B's IPO)*

This evidence suggests that CS-B's IAAs have adopted the behaviours consistent with Western culture reactively; therefore in line with the indicator A1 in table 4-9, CS-B's IAAs 'adjusted' to Western rules and procedures at the commitment stage.

Based on the findings, with the relationship developing toward the commitment stage, WB-B's IAAs tended to 'learn' Guanxi network while CS-B's IAAs tended to 'adjust' to multiple institutions. This finding supports proposition 2 developed from case A, which indicates that *'As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to multiple institutions represented by Western rules and procedures and Western buyer IAAs tend to learn the feature of harmony within hierarchy of Guanxi network.'*

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p>“Guanxi is pervasive in the company like CS-B and is very important between WB-B and CS-B. We need to maintain the relationship by periodical visits. Their President comes over and our Purchasing Director goes over to see what needs to be improved. I reckon it is a very good way to clear up barriers to some strategic projects. We Western companies focus on procedure...I feel we understood this difference at the beginning of the relationship. However the learning was a continuously improving process to us” (Senior Buyer, WB-B IPO)</p> <p>(Understand: indicators U1&amp; U2)</p>	<p>“The Chinese system is very much about seniority and hierarchy. This is different from our flat organization...You got to get into the hierarchy and make sure the senior management is supporting this changing direction or initiatives. We went in with our lean manufacturing tool kit and started applying it in the operational level. If Presidents are not interested in it, we fail. For example, we attempted to apply six-sigma in CS-B. Initially rather than going to the top management, we approached middle level managers to test their reaction on this. We found no one was interested in it. We had to persuade the top management to implement it later on before the six-sigma was successfully implemented. [The author: When did that happen?] That was in 2002.” (Purchasing Director, WB-B IPO)</p> <p>(Adjust: indicators U1, U2 &amp; A1)</p>	<p>“What you can do is to go and visit them and convince their senior management that this is our way to do business. When I visited the Chinese suppliers, I always had dinner with the Presidents/General Manager of the suppliers, Chief Engineer and Quality Management Director. I meet with their senior management team.” (Purchasing Director, WB-B IPO)</p> <p>“From time to time, when projects do not go smoothly, we will definitely go to their top management because other people can't make decision even on some small things. We do what we should do but we need to maintain harmony with them.” (Sourcing Manager, WB-B IPO)</p> <p>(Learn: indicator L1)</p>
<b>Chinese Supplier B</b>	<p>“I totally agree with this. In the West, systematic management method is implemented while in China we rely heavily on Guanxi. Our company has gradually adapted to the systematic management method. We can't manage this fast growing company without a system and procedures. At the beginning, we tried very hard to understand many of their requirements, which we had never followed before...we gradually built up an understanding of those requirements at the beginning of the relationship.” (Project Team Leader, CS-B)</p> <p>(Understand: indicator U2)</p>	<p>“I feel the biggest problem facing Chinese enterprises is that we are not following rules and procedures closely. WB-B is a world class diesel engine manufacturer. If we don't follow their requirements, we can't do business with them. When we started trading with WB-B, they had a 121-requirements and 21-stages; we had to follow the stages and requirements closely. WB-B offered us a lot of help on following their procedures.” (President, CS-B)</p> <p>“The Western culture represents their mindset, a way of working, which is worthy of learning from Chinese perspective. This way of working is a rule of game ensuring that different individuals produce similar results working on the same thing. Different individuals doing the same thing produce different results because people have different background and don't care about rules or procedures...we adapted to this in about 2001 when WB-B increased purchase order from us and we were required to follow their requirements closely. As Chief Quality Engineer, it was a norm for me to work overtime during that period, because there were so many quality control issues raised by WB-B and our employees. After that, we built a platform, by which we could communicate with the technical language we both understand.” (Chief Quality Engineer, CS-B)</p> <p>(Adjust: indicators U1, U2 &amp; A1)</p>	<p>“It is essentially in the Western companies, it is systemized. I am looking at how Western companies are different from Chinese companies. Western companies emphasize systems, processes, computerized menu and functions. If you are in an engineering company, there is a clear line of communication and responsibility. You may have the production, quality, materials, purchasing, HR and IT. They are all very clear in their responsibilities in their scope and activities. Chinese companies overlap a great deal. There is a grey area about who is responsible for what. That causes, for a Western company dealing with the Chinese company, a lot of confusion, delays, and inefficiencies and many problems. What we do, um, we don't just select suppliers, and we develop them. We grow suppliers...We push them toward lean manufacturing, Toyota production system, and volatile cycle time. We have a framework which will apply with our suppliers. Eventually they will realize that their conventional organizational structure is inefficient. If they work with a Western company, they can go into another working level.” (Purchasing Director, WB-B IPO) (Adjust: indicator A1)</p>

**Table 6-5: Adaptation to Guanxi Network vs. Multiple Institutions**

### 6.3.2.3 Adaptation to Guanxi Relationship Building vs. Western Relationship Building Process

There are four cultural behavioural differences that define the root difference of Guanxi relationship building (GR) vs. Western relationship building process (WR). These include:

1. Flexible nature of GR featured by the interplay of *face* and *renqing* vs. progressive nature of WR
2. Yin-yang principle of GR vs. dualistic thinking of WR
3. Personal informal nature of GR vs. corporate to corporate formal nature of WR
4. Long term orientation of GR vs. short term orientation of WR

This section reports findings on how both parties of a partnership adapt to each other in terms of these four differences.

#### 6.3.2.3.1 Adaptation to Flexible Nature of GR vs. Progressive Nature of WR

In table 6-6, the Senior Buyer understood the terms of *face* and *renqing* in Chinese culture, showed his understanding of this difference and claimed that WB-B's IAAs understood this difference at the beginning of the relationship (U1 & 2). The Sourcing Manager also showed her understanding of this difference. This indicates that WB-B's IAAs 'understood' this difference at the exploration stage of the relationship.

The Sourcing Manager claimed that although they did not make decisions based on *face* and *renqing*, they had to adapt to *face* and *renqing* in about 2001, when the relationship was at the expansion stage. An example (quote below) was given by the Purchasing Director, who stated that he gave 'face to the President of CS-B by not bringing a case to a Chinese court (Being brought to a court is considered 'losing face' in China); the President reciprocated by shutting down the website and firing the salesman, therefore an exchange of favour was completed. This event happened in 2002 or 2003, when the relationship was at expansion stage. The claim made by the Sourcing Manager indicates that WB-B's IAAs adopted the behaviour of saving face and exchange of *renqing* reactively, therefore they 'adjusted' to this at the expansion stage.

*"A Chinese salesman of CS-B just graduated from university, wanted to make a mark on sales, you know that a lot of people want oil cooler for the aftermarket, he just advertised them without seeking permission from us. As soon as the President of CS-B was told, he shut the website down and fired the guy immediately. That is the power of that relationship. That was in 2002 or 2003. When I was dealing with a Western company, I would act in a different way. I may get a company lawyer involve with it or we would take them to court and damage the relationship from company to company for a long time."*

It was observed that IAAs from both parties held formal meetings at the conference room of CS-B when the Senior Buyer of WB-B visited CS-B. During the meetings, although the Senior Buyer was not happy with the unexpected delay of one project, he did not take a tough position but explained patiently again what their requirements are to save the face of a project team member of CS-B.

Drinking much strong rice wine shows great respect (give face) to the host and is a key to get the best deal and get everything done smoothly in China. The Purchasing Director practiced it not long before the interview with him in 2007 showing his adaptation to the flexible nature of GR. However as the Purchasing Director and the Sourcing Manager claimed that ‘face’ and ‘renqing’ is important but they do not make decisions based on that indicating that they do this for the purpose of showing respect to and interacting smoothly with CS-B. This evidence suggests that, in line with indicator A1 in table 4-9, WB-B’s IAAs adopt the behaviours of flexible nature of GR reactively because they ‘feel right’ (A1); therefore WB-B’s IAAs have adjusted to the flexible nature of GR at the commitment stage.

At the beginning of the relationship (1998-2000), CS-B negotiated and prepared for trading with WB-B. In that period, CS-B mainly tried to understand how to work with WB-B and WB-B’s relationship building procedures according to the Senior Buyer of WB-B. The Project Team Leader showed his understanding of and acknowledged this difference and claimed that CS-B’s IAAs understood this at the beginning of the relationship (U2 & 3). Therefore CS-B’s IAAs achieved a level of ‘understanding’ of this difference at the exploration stage.

As claimed by the three key informants from WB-B’s IPO, CS-B had to follow their step by step relationship building process if they wanted to win business from WB-B at the time when the research was conducted. This is corroborated by the key informants from CS-B. For example the President of CS-B claimed that they have had to adapt to WB-B’s rules and procedures in 2002. The word that CS-B’s IAAs used most to express their adaptation to WB-B’s relationship building process was ‘follow’. CS-B is a Chinese company and Guanxi is a very important element in their business relationships with others, therefore they were not able to completely adapt to the step by step relationship building process. This suggests that CS-B’s IAAs adopted the behaviours consistent with this element of Western culture reactively; therefore in accordance with the indicator A1 (table 4-9), we might conclude that CS-B’s IAAs have reached a level of ‘adjustment’ to the Western step by step relationship building process at the expansion and commitment stages.

Based on above findings, as the relationship evolved toward the commitment stage, WB-B’s IAAs tended to adjust to face and renqing of Guanxi relationship building process while CS-B’s IAAs tended to adjust to step by step relationship building process, therefore proposition 3a, which is described as “*As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to step by step relationship building of WR and Western buyer IAAs tend to adjust to flexible nature of GR by ‘giving face’ and ‘exchanging renqing’.*” developed from case A, is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p>“Our relationship with CS-B was a step by step one. The bigger the business is, the better our relationship. WB-B has a procedure of supplier management. CS-B has known our procedure well now and has to adapt to us even if they are not willing to. Of course, face and renqing have some effect on the relationship. They make us understand each other better therefore have better communication. However the decision on price is not made based on face and renqing. If we don’t pay attention to face and renqing and we can’t succeed in China... We understand this at the beginning of the relationship.” (Senior Buyer, WB-B IPO)</p> <p>(Understand: indicators U1 &amp; U2)</p>	<p>“WB-B does not consider too much about renqing but consider how to do business effectively with Chinese suppliers. We consider renqing and face on the basis of good business. CS-B follows our step by step procedures...however we noticed that sometimes we do not need to follow the procedures step by step when building up relationship with Chinese suppliers because our Purchasing Director built a personal relationship with CS-B’s president and therefore they gave face to and exchanged renqing with each other, then our relationship developed faster and smoother than expected. The Purchasing Director and we did not adapt to this until later in the relationship, in around 2001 or 2002. That is to say that the process from exploration to commitment has been much shortened.” (Sourcing Manager, WB-B IPO)</p> <p>(Adjust: indicators U2 &amp; A1)</p>	<p>“Three week ago, we (President and he) drank rice wine together with a large group of government officials. If I did not drink “Baijiu” (strong Chinese rice wine), I will not be successful in China. To do business in China, you have to drink “Baijiu”. If you don’t drink that, you won’t get the best deals. In the UK, you may get a good deal at the golf course; you may get a good deal at the board room. In China, you close the deal and negotiate the whole set during the banquet. You drink “Baijiu” with the drunken prawn and other dishes abundant... Every quarter, we allow senior management review using a supplier scorecard. So we review their performance against total cost, quality, delivery, technical performance and relationship. We give them scores out of 100. So it is very objective. It is not we have good relationship, we are going to reward you more business. They have to earn it.” (Purchasing Director, WB-B IPO)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier B</b>	<p>“At the beginning of the relationship, we tried very hard to build Guanxi with them, however we found it didn’t work because WB-B was focused on procedures. We’ve gradually known that they tended to build a step by step relationship with us based on their procedures. We understood this at the beginning of the relationship. WB-B’s IPO personnel showed respect to us and we felt comfortable working with them, so I think they adapted to us as well. WB-B’s IPO adapted to us in around 2001 because they increased its purchase significantly at that time and we were recognized by WB-B.” (Project Team Leader, CS-B)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p>“WB-B has a set of supplier selection and development procedures, which every suppliers need to follow. In CS-B, we have to follow Western relationship building process dealing with WB-B. We have had to adapt to this in 2002. As for WB-B, they gradually adapt to Chinese renqing and face shown in their respect to us.” (Chief Quality Engineer, CS-B)</p> <p>“When we started trading with WB-B, they have a 121-requirements and 21-stages; we had to follow the stages and requirements closely. WB-B offered us a lot of help on following their procedures. We could adapt to this when they increased their order from us in 2001.” (President, CS-B)</p> <p>(Adjust: indicator A1)</p>	<p>“Right from early stage of the relationship, we followed WB-B’s way of relationship building. Our relationship has developed gradually over the years. They also adapt to us in the sense that they understand better how to respect Chinese and renqing. This is due part to the fact that the Chinese nationals from both parties deal with each other. (Chief Engineer, CS-B)</p> <p>(Adjust: indicator A1)</p>

**Table 6-6: Adaptation to flexible nature of GR vs. progressive nature of WR**

### 6.3.2.3.2 Adaptation to Yin-yang Principle of GR vs. Dualistic Thinking of WR

As shown in table 6-7, WB-B's Senior Buyer claimed that at the beginning of the relationship, the IPO's IAAs pushed CS-B to reduce price; when this did not work well, then decided to help develop CS-B so that they could reduce their cost by improving efficiency. It can be seen that IPO's IAAs had to change from a type of behaviour similar to 'push' to 'pull'. This indicates that they did not use this knowledge proactively but adopted the pull behaviour consistent with Chinese culture reactively; therefore they 'adjusted' to Yin-yang principle at the exploration stage.

In last section of adaptation to flexible nature of GR vs. progressive nature of WR, an example was provided by the Purchasing Director describing that he was very tough on CS-B when a salesman of CS-B sold the parts made for WB-B online to other buyers, which was not allowed by WB-B. The President of CS-B had to sack that salesman under pressure from the Purchasing Director. Nevertheless, he maintained good personal relationship with the President of CS-B. This example indicates that the Purchasing Director could practice the dynamic transformation between 'push' and 'pull' effectively. This event happened in 2001 when the relationship was at the expansion stage.

This view was supported by CS-B's IAAs claiming that WB-B's IAAs can perform "Taichi", which is used to explain the creation of the myriad things through the dialectical process of alternating polarity between yin and yang (Robinet, 2008). It is also a form of martial art and its principle is based on Yin-yang principle. The one who can perform 'Taichi' is believed to have a deep understanding of Yin-yang principle and is able to implement it well.

In modern Chinese society, if someone says "you are so good at playing Taichi", it means that the person concerned is very good at taking advantage of Yin-yang principle and represents an advanced stage of implementing Yin-yang principle. Western people like the Purchasing Director, who have been exposed to the Chinese culture for a long time, were able to understand and practice this well. The grasp of Yin-yang principle is not easy even for Chinese.

Since the Purchasing Director has trained his Chinese employees, therefore the Chinese employees including the Sourcing Manager and the Senior Buyer were also able to implement Yin-yang principle well. The evidence suggests that WB-B's IAAs used Yin-yang principle of Chinese culture proactively (L1) since the expansion stage because they were in an advanced stage of implementing it in 2001. Therefore IPO's IAAs have 'learned' Yin-yang principle at the expansion and commitment stages.

All three CS-B's IAAs showed their understanding of and accepted this difference (U2 & 3), but the Chief Engineer claimed that they do not adapt to Western dualistic thinking at the time when the research was conducted. There was no evidence that CS-B's IAAs adapted to Western dualistic thinking. Furthermore, Yin-yang principle and Western dualistic thinking are mutually exclusive meaning that if one implements Yin-yang principle, he or she can not implement dualistic thinking and vice versa. Therefore

CS-B's IAAs achieved a level of 'understanding' of this difference from exploration to commitment stage.

Based on above findings, as the relationship evolved toward the commitment stage, WB-B's IAAs tended to learn Yin-yang principle and CS-B's IAAs tended to understand dualistic thinking, therefore proposition 3b, described as "*As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand dualistic thinking of WR and Western buyer IAAs tend to learn Yin-yang principle of GR.*" developed from case A, is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p><i>“We want to save money and Chinese suppliers want to earn more profits. This is a pair of contradiction. If we all concede to each other, the contradiction won’t be developed into conflict, which is harmful to both of us. We tried very hard to ask CS-B to reduce their price at the beginning of the relationship however it was really difficult; because they just started supplying us; they had to invest in equipments; and their production was not very efficiently at the beginning. What we have changed was to help them understand our requirements, produce efficiently and improve their product quality to achieve our aim of reducing cost. In this way, we changed from ‘push’ to ‘pull’. What we also do is to yield in this project and you yield in that project. Therefore we adapt to CS-B in this. We adapted at the beginning of the relationship.”</i> (Senior Buyer, WB-B IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“Chinese probably won’t say no. They will say yes but mean no. Americans think yes and the Chinese doesn’t mean yes. You know the “one bed, two dreams”. You got to see things from the Chinese eyes.”</i> (Purchasing Director, WB-B IPO)</p> <p>(Learn: indicator L1) In relation to CS-B’s IAA comments about Taichi below</p>	<p><i>“One of our core values is diversity (embracing the diverse perspectives of all people and honour with both dignity and respect: WB-B website). We pay a lot of attention not to force others but we will be tough if needed. We have good relationships with our suppliers, who are willing to present their ideas to us. Actually we encourage our suppliers to do so because we consider our suppliers are experts on the parts we order from them. We adapt to them (CS-B) more on this. We need to learn Chinese culture otherwise we wouldn’t have a good relationship with them.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Learn: indicator L1)</p>
<b>Chinese Supplier B</b>	<p><i>“After WB-B worked with us, they have gradually learned the ‘push’ and ‘pull’ strategy of Yin-yang principle while in the West; they use “push” only. Therefore they adapted to us... We understood this at the beginning of the relationship and don’t adapt to them.”</i> (Chief Engineer, CS-B)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p><i>“Western people are more straightforward but they (IPO) have been very good at this principle. They know the Chinese culture well especially the Purchasing Director. That is to say they can perform ‘Taichi’ (based on the principle of Yin-yang principle) taking advantage of their advanced resources and keeping harmony with us.”</i> (Project Team Leader, CS-B)</p> <p>(Understand: indicator U3)</p>	<p><i>“We understand that in the West, you have to do what you promise. In China it is different. Working with Chinese is like practicing ‘Taichi’.”</i> (Chief Quality Engineer, CS-B)</p> <p>(Understand: indicator U3)</p>

**Table 6–7: Adaptation to Yin-yang principle of GR vs. dualistic thinking of WR**

### 6.3.2.3.3 Adaptation to Personal Informal Nature of GR vs. Corporate to Corporate Formal Nature of WR

In table 6-8, the Sourcing Manager claimed that WB-B's IAAs had to change their behaviour from holding formal meetings and building corporate to corporate relationship to building personal and informal relationship with CS-B's IAAs in the early stage of the relationship indicating that they adopted this behaviour consistent with Chinese culture reactively (A1). Therefore WB-B IAAs 'adjusted' to personal informal nature of GR at the exploration stage.

WB-B's IAAs appreciated personal and informal relationship with CS-B's IAAs. Taking the example of the Purchasing Director, he was very proud to be a friend of bosses of Chinese suppliers. He considered that this is his own social capital, which could be used to benefit his company and this is where his value to the company is. This view was also corroborated by CS-B's IAAs. The Sourcing Manager and the Senior Buyer of WB-B's IPO claimed that they adapted well by forming personal relationship with CS-B's IAAs in around 2002 or a couple of years after the relationship with CS-B started, when the relationship was at expansion stage. This indicates that they used knowledge (building personal relationships with CS-B's IAAs) of Chinese culture proactively (L1). Therefore they 'learnt' this aspect of GR at the expansion stage.

The Purchasing Director of WB-B's IPO interacted with the President of CS-B frequently at the time when the research was conducted. They dined together, chatted on the phones and became good friends. The important topics have been discussed and issues settled during the informal side meetings in front of the banquet tables and informal telephone conversations. So during the formal meetings, there was no major disagreement and harmony can be maintained, faces saved. The Sourcing Manager and the Senior Buyer have also actively built personal relationship with the top management of CS-B.

WB-B's IAAs were excited to talk about cultural differences expressing their interest in this topic. The Purchasing Director had a bookshelf in his office. There were a lot of books on China on the shelf. He claimed that:

*"I have read a lot of books on China. If you don't read about Mr. China and other books on China, you won't understand the cultural differences."*

The evidence suggests that WB-B's IAAs interacted with CS-B's IAAs regularly and willingly (L2), and spent time observing and studying Chinese culture (L3) at the time when the research was conducted; therefore they 'learnt' this personal informal nature of GR at the commitment stage.

It can also be seen that CS-B's IAAs understood the difference but have focused on building personal relationships with WB-B's IAAs and they did not adapt to the formal corporate to corporate nature of WR. The evidence shows that they showed their understanding of this difference (U2), acknowledged and accepted this difference (U3), and do not normally adopt the corporate to corporate formal relationship behaviours of Western culture themselves (U4). The Chief Engineer claimed that they 'understood'

this difference at the beginning of the relationship. Therefore CS-B's IAAs 'understood' this difference from exploration to commitment stage of the relationship.

Based on above findings, as the relationship evolved toward the commitment stage, WB-B's IAAs tended to learn personal informal nature of GR and CS-B's IAAs tended to understand this difference, therefore proposition 3c, which is described as "*As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand the formal and corporate to corporate nature of WR and Western buyer IAAs tend to learn the informal and personal nature of GR.*" developed from case A, is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p><i>“In the early stage of the relationship, we held formal meetings only and attempted to build the corporate to corporate relationship with CS-B but we can see that CS-B was not comfortable with this, which made the negotiation process progress slowly. We then realised that Chinese tend to build personal relationship so we tried an informal way by inviting them to dinner and built personal relationship with their top management.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“CS-B has set up Guanxi with our IPO. We also build personal relationship with the key contacts such as the Project Team Leader by dining together and taking parts some amusement activities (Karaoke) after work. The Purchasing Director and the Sourcing Manager were sometimes involved. I feel we adapt to this well in around 2002 since it took some time for the personal relationship to develop.”</i> (Senior Buyer, WB-B IPO)</p> <p><i>We were asked by the Purchasing Director to keep a good Guanxi with the bosses of Chinese suppliers important to us. The Purchasing Director himself visited CS-B top management and dined with them many times talking in an informal atmosphere. Normally when we visited CS-B, we stayed overnight leaving the chance to dine together even if everything can be finished in one day. This is a better way of communication with Chinese suppliers knowing each other’s opinions before the formal meeting the next day. We adapted well a couple of years after the relationship with CS-B started”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Learn: indicators L1 &amp; L2)</p>	<p><i>“Out of our partnership with CS-B, the President is a very good friend of mine...Personal relationship is everything in China. Chinese trust is about people and is personal. Western business trust is about inter-company. In America, it is WB-B’s relationship with General Motor. In China, it is not WB-B’s relationship with, you know, CS-B. It is (his name)’s relationship with (the president’s name)... In the U.K., you may get a good deal at the golf course; you may get a good deal at the board room. In China, you close the deal and negotiate the whole set during the banquet. Three week ago, in a Chinese city, we drank rice wine together with a large group of government officials. If I did not drink “Baijiu” (strong rice wine), I will not be successful in China. To do business in China, you have to drink “Baijiu”. If you don’t drink that, you won’t get the best deals.”</i> (Purchasing Director, WB-B IPO)</p> <p>(Learn: indicators U1, L1, L2 &amp; L3) in relation to the in-text quote.</p>
<b>Chinese Supplier B</b>	<p><i>“Western companies focus on formal corporate to corporate relationship. We focus on building personal relationship with WB-B’s key personnel such as the Purchasing Director. We also maintain good relationship with top management of WB-B such as the Purchasing Director’s boss in the US and WB-B (China)’s VP in Beijing. We understood the difference at the beginning of the relationship.”</i> (Chief Engineer, CS-B)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p><i>“WB-B adapted to the informal personal nature of Guanxi. Chinese would like to build long term personal relationship. No matter what the relationship between companies is, personal relationship exists. This is different from the West. The relationship normally is not taken away by individuals. Our President and the Purchasing Director of WB-B IPO have personal relationship. Even if the Purchasing Director leaves his company, we are still friends.”</i> (Project Team Leader)</p> <p>(Understand: indicators U2, U3 &amp; U4)</p>	<p><i>“Our president has very good personal relationship with the Purchasing Director of WB-B’s IPO. WB-B’s IPO intentionally develops and maintains personal relationship with our top management.”</i> (Chief Quality Engineer, CS-B)</p> <p>(Understand: indicator U2)</p>

**Table 6–8: Adaptation to personal informal nature of GR vs. corporate to corporate formal nature of WR**

#### 6.3.2.3.4 Adaptation to Long Term Orientation of GR vs. Short Term Orientation of WR

Table 6-9 shows that at the beginning of the relationship, the behaviour in which WB-B's IAAs held formal meetings and built corporate to corporate relationship was considered a short term orientation by CS-B's IAAs and did not work well. WB-B's IAAs had to change it by building personal and informal relationship with WB-B's IAAs. The Sourcing Manager of WB-B's IPO claimed that at the exploration stage, they found that they had to invest in the relationship first before they can build trust with CS-B's IAAs. This was corroborated by the Purchasing Director of WB-B, who stated that they invested in the relationship by training and developing CS-B, and building personal relationships with CS-B's key personnel. This suggests that WB-B's IAAs adopted long term orientated behaviours consistent with Chinese culture reactively because they 'feel' right (A1) at the exploration stage.

WB-B has been trading in China for more than 20 years and successfully localized according to the Senior Buyer, who claimed that WB-B has been building long term relationship with CS-B at corporate level since 2001. The Sourcing Manager of the IPO claimed that building personal relationship is important for building corporate to corporate relationship; therefore they have built personal relationship with CS-B's IAAs since 2002, when the relationship was at expansion stage. This indicates that WB-B's IAAs have used knowledge of long term orientation of Chinese culture proactively since 2002, therefore they 'learnt' this aspect of GR at the expansion stage.

From the response of the Purchasing Director, it can be seen that WB-B's IAAs prefers this long term relationship with Chinese suppliers, therefore have used this knowledge of Chinese culture proactively (L1). As mentioned in the last section, WB-B's IAAs also intentionally interacted with CS-B's IAAs regularly and willingly (L2). The relationship between WB-B and CS-B has lasted for 10 years, which is not a short term. WB-B's long term orientation was corroborated by CS-B's IAAs. It might be concluded that WB-B's IAAs have 'learnt' the long term orientation at the commitment stage as well.

According to the response of the Chief Quality Engineer and the Project Team Leader of CS-B, they considered that they behaved in a natural and normal way and different ways are wrong and misguided in term of long term orientation (NA1). The Chief Engineer's response showed that he believed as different as people are, they are still more similar than dissimilar in terms of long term vs. short term orientation (NA2). Therefore CS-B's IAAs did not understand the difference and have not adapted to short term orientation from exploration to commitment stage.

Based on above findings, proposition 3d, which is described as "*As a relationship develops toward the commitment stage, Chinese supplier IAAs tend not to adapt to short term orientation of WR and Western buyer IAAs tend to learn long term orientation of GR.*", developed from case A, is supported.

Proposition 3 is a summary of proposition 3a-3d. Since Propositions 3a-d are supported, P3 is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer B</b>	<p><i>“As I said, in the early stage of the relationship, we held formal meetings only, built the corporate to corporate relationship with CS-B and forced CS-B to reduce price. This was considered by CS-B a short term orientation. Gradually we found this did not work for Chinese. The negotiation process was slow as a result. We had to put something into the relationship before the trust was built. We adapted at the beginning of the relationship.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Adjust: indicator A1)</p>	<p><i>“WB-B came to China in 1980s and was one of the first Western firms investing in China. It is a good example of successful localization of Western firms. Therefore WB-B has been building long term relationship with CS-B since 2001 or 2002, when we decided to develop CS-B into a strategic supplier. Some other Western firms in China are comparatively short-term orientated. If the supplier has done badly in one project, then Western firms stop the relationship”</i> (Senior Buyer, WB-B IPO)</p> <p><i>“Building personal relationship is important to build long term corporate level relationship, so we have built personal relationships with CS-B’s senior management since 2002.”</i> (Sourcing Manager, WB-B IPO)</p> <p>(Learn: indicator L1)</p>	<p><i>“Well, some purchasing groups are like that. They come to China very American or very German or very arrogant in their way of doing business with Chinese. They don’t invest in that relationship before they are trying to get the very best price for whatever they are trying to buy. In China, you got to take time to build the relationship. You can’t get it immediately to refine details with five years agreements... You got to do that over time. You got to do something to demonstrate you want to put something in that relationship like we put our technology and our training into our suppliers. Then we got much better supplier, so they got something out of it.”</i> (Purchasing Director, WB-B IPO)</p> <p>(Learn: indicators L1 &amp; L2)</p>
<b>Chinese Supplier B</b>	<p><i>“In the Western automotive industry, buyers and suppliers have close relationship. When the automotive companies come to China, their suppliers follow. They are long term orientated.”</i> (Chief Quality Engineer, CS-B)</p> <p>(NA: indicator NA1)</p>	<p><i>“WB-B adapts to CS-B in this aspect, They cooperate with us long term. Short term is impossible otherwise they don’t give us all their business.”</i> (Project Team Leader, CS-B)</p> <p>(NA: indicator NA1)</p>	<p><i>“WB-B tends to build long term relationship with us. It is shown in the fact that they visit us frequently and constantly provide training to us and their top management is involved in the relationship.”</i> (Chief Engineer, CS-B)</p> <p>(NA: indicator NA2)</p>

**Table 6–9: Adaptation to long term orientation of GR vs. short term orientation of WR**

### 6.3.3 Bilateral and Gradual Adaptation

All the IAAs claimed that the cultural adaptation process was gradual and incremental supporting a progressive relationship building process by both parties. It can also be seen from table 6-10, which is a summary table of table 6-4 to table 6-9, that WB-B's IAAs adapted to Guanxi relationship building process and family orientation and CS-B's IAAs adapted to multiple institutions represented by rules and procedures required by WB-B and self interest, therefore both parties adapted in certain aspects and the process was bilateral. P4 indicating that "*The cultural adaptation process is bilateral and gradual in nature.*" developed from case A is supported.

WB-B's IAAs 'adjusted' to Yin-yang principle, personal informal nature and long term orientation of Guanxi relationship building process at the exploration stage of the relationship and did not go through the 'understand' level, because the IPO's IAAs especially the Purchasing Director has been exposed to Chinese culture for a long time and have understood the cultural behavioural differences before the relationship with CS-B started.

Behavioural differences		Stages		
		Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Family orientation vs. self interest</b>		WB-B: <i>Understand</i> CS-B: <i>Understand</i>	WB-B <i>adjusts</i> to family orientation. CS-B <i>adjusts</i> to self interest.	WB-B: <i>Adjust</i> CS-B: <i>Adjust</i>
<b>Guanxi network vs. multiple institutions</b>		WB-B: <i>Understand</i> CS-B: <i>Understand</i>	WB-B <i>adjusts</i> to harmony within hierarchy feature of Guanxi network. CS-B <i>adjusts</i> to multiple institutions represented by Western operational rules and procedures.	WB-B: <i>Learn</i> CS-B: <i>Adjust</i>
<b>Guanxi relationship building vs. Western relationship building process</b>	<b>Progressive vs. flexible</b>	WB-B: <i>Understand</i> CS-B: <i>Understand</i>	WB-B <i>adjusts</i> to face and renqing. CS-B <i>adjusts</i> to step by step relationship building.	WB-B: <i>Adjust</i> CS-B: <i>Adjust</i>
	<b>Yin-yang principle vs. dualistic thinking</b>	WB-B: <i>Adjust</i> CS-B: <i>Understand</i>	WB-B <i>learns</i> Yin-yang principle. CS-B <i>understands</i> dualistic thinking.	WB-B: <i>Learn</i> CS-B: <i>Understand</i>
	<b>Personal informal vs. corporate to corporate formal</b>	WB-B: <i>Adjust</i> CS-B: <i>Understand</i>	WB-B <i>learns</i> informal personal nature of GR. CS-B <i>understands</i> formal corporate to corporate nature of WR.	WB-B: <i>Learn</i> CS-B: <i>Understand</i>
	<b>Long term vs. short term orientation</b>	WB-B: <i>Adjust</i> CS-B: <i>NA</i>	WB-B <i>learns</i> long term orientation. CS-B does not adapt to short term orientation.	WB-B: <i>Learn</i> CS-B: <i>NA</i>

**Table 6–10: Data display matrix of cultural adaptation process**  
(NA: no adaptation; WB-B: WB-B's IAAs; CS-B: CS-B's IAAs)

### 6.3.4 Hybrid Culture Interface

#### 6.3.4.1 Existence of a Hybrid Culture

When the key informants were asked “is there a composite culture including elements from both Chinese and Western cultures developed between WB-B and CS-B”; all of them answered “yes”. The key informants were then asked what their understanding of the composite culture is. Each one of them perceives it a combination of Western rules and procedures and Chinese Guanxi. The views of the IAAs of each party of the partnership interviewed are selected. The Presidents of CS-B expressed that:

*“I reckon that the key to success is mutual adaptation. There is a composite culture between WB-B and CS-B. We learn a lot and all around from WB-B such as its planning, human resources management and its procedure of product R & D. We consider WB-B a tutor to change us, our mindset and internal environment. We pay a great attention to WB-B’s act and listen carefully to the personnel they sent over. WB-B’s culture is like an invisible hand embedded in ours...WB-B has also changed and adapted to our Chinese culture. No one can change the Chinese culture embedded in our company completely. WB-B has to adapt to it and build Guanxi with us. Both are needed to have a successful relationship.”*(President, CS-B)

The President of CS-B confirmed the existence of a hybrid culture between WB-B and CS-B and implicitly claimed that the nature of the hybrid culture is a combination of Guanxi and Western rules and procedures. His view was corroborated by the Purchasing Director of WB-B’s IPO:

*“If you want to measure Guanxi, there are no framework or objective measures like I have told you about. If you only employ such measures, then you fail. You need to apply the best of the West with the best of the East and use Guanxi and partnership bonding with the partners. Practice No.8 could be that Guanxi relationship...As for the Guanxi relationship; we are just drinking together and forming friendship. There is no basis, no foundation, and no objective key performance indicators. I got to make sure that our processes are applied into this relationship so we integrate Guanxi, conference meetings, objective indicators to go through a structured agenda using presentation and data on charts. We blend these two together.”*(Purchasing Director, WB-B IPO)

The Purchasing Director explicitly claimed that the nature of the hybrid culture is the blending of elements of the two cultures. Further evidence provided by the Sourcing Manager of WB-B’s IPO and the Project Team Leader of CS-B also confirms the existence of a hybrid culture between WB-B and CS-B and support the argument that the hybrid culture is a combination of Western rules and procedures and Guanxi.

*“This is an adaptation process. If we want to achieve some goal, both parties have to adapt. Chinese suppliers should learn Western rules and procedures such as implementing ERP or SAP otherwise it is difficult for them to share information with us. Western buyers on the other hand need to adapt to Chinese culture such as Guanxi. In this way, CS-B and we have obtained a lot of benefits.”* (Sourcing Manager, WB-B IPO)

The Sourcing Manager confirmed the nature of the hybrid culture and claimed that by adapting to each other culturally, WB-B and CS-B have gained mutual benefits.

*“We have learned from WB-B planning, setting objectives, quality control and other procedures. WB-B learns from us how to respect Chinese culture and build Guanxi. They then change us in a way that makes us be able to learn Western procedures better. They have learned how to explain to us why we need to do this and do that i.e. the benefits of it and transform our negative aspects to positive. They also audit us twice a year. This is a basis of cooperation. This way, WB-B could achieve their goal of sourcing from low cost countries i.e. low cost but high quality. Western buyers should not take everything for granted that Chinese suppliers are ready for them to source products. They should especially learn how to ‘save our face’; otherwise they will fail in China.”* (Project Team Leader, CS-B)

The Project Team Leader claimed that CS-B’s IAAs have learnt rules and procedures of WB-B and WB-B’s IAAs have adapted to Guanxi, therefore he implicitly indicated that the nature of the hybrid culture, which is the combination of the two.

From above, it might be concluded that the IAAs from both parties and different managerial levels agreed that a hybrid culture, which is beneficial to both parties, has been formed between WB-B and CS-B as a result of cultural adaptation and is a combination of Western rules and procedures and Guanxi, therefore P5 and P5a, developed from case A, are supported.

*P5: Cultural adaptation creates a mutually beneficial hybrid culture that exists at the interface between Western buyers and their Chinese suppliers*

*P5a: The hybrid culture is a combination of Western rules and procedures and Guanxi.*

#### **6.3.4.2 Who Adapts?**

The key informants were also asked “who are the people adapting to each other and creating the hybrid culture?” They without exception claimed that cultural adaptation was mainly carried out by those working for the WB-B’s IPO and top management of CS-B, because they interacted frequently with each other and at the interface between WB-B and CS-B. The author observed that the remaining three informants interviewed (the Supplier Development Manager and the Material Planner of WB-B’s UK subsidiary and a Project Engineer of CS-B) did not appear to understand most of the cultural behavioural differences between China and the West. This provides additional evidence to support the claims made by case B’s IAAs.

For example, the view is expressed by the Purchasing Director of WB-B’s IPO:  
*“What they (plants based in the West) are interested in is the lowest total cost, on time deliver to a warehouse and protect them from fluctuation and supply chain variation. We take care of the communications with Chinese suppliers. This IPO is the bridge between Chinese suppliers and the UK & US plants. All they want to know is the data. They don’t understand the Guanxi relationship. It is not a term outside China. Guanxi is*

*a term about partnership business relationship. They are not sourcing from China. They are sourcing from the IPO.*”

His view is also corroborated by the Project Team Leader of CS-B:

*“As for us, top management represented by the President, the Chief Engineer and I adapt culturally. As for WB-B, it is the IPO that adapted. When the project sets off, the plants based in the West interacted with us directly and sometimes came over to visit us but they don’t understand the cultural differences.”*

It is clear that those individuals working at the interface between WB-B and CS-B and interacting closely with the other party adapt culturally, therefore P5b, which is described as *“Interface Active Agents (IAAs), who across the Western buyer and Chinese supplier interface interact closely with each other, are most likely to adapt culturally resulting in the creation of a hybrid culture.”*, is supported.

#### **6.3.4.3 Trans-cultural**

The Purchasing Director of WB-B showed his deep understanding of both cultures in all the three cultural behavioural differences. For example, he commented on their adaptation to the Guanxi network featured by harmony within hierarchy:

*“The Chinese system is very much about seniority and hierarchy. This is different from our flat organization... You got to get into the hierarchy and make sure the senior management is supporting this changing direction or initiatives.”*

He was able to make valid cross-cultural judgments and switch between Chinese and Western styles, therefore he has developed into a trans-cultural. For example, in the adaptation to the personal and informal nature of GR, his statement shows that he was able to make valid judgments and switched styles between building personal relationship in China and building formal corporate level relationship in the West:

*“Out of our partnership with CS-B, the President is a very good friend of mine... Personal relationship is everything in China. Chinese trust is about people and is personal. Western business trust is about inter-company. In America, it is WB-B’s relationship with General Motor. In China, it is not WB-B’s relationship with, you know, CS-B. It is (his name)’s relationship with (the president’s name)... In the UK, you may get a good deal at the golf course; you may get a good deal at the board room. In China, you close the deal and negotiate the whole set during the banquet. Three week ago, in a Chinese city, we drank rice wine together with a large group of government officials. If I did not drink “Baijiu” (strong Chinese rice wine), I will not be successful in China. To do business in China, you have to drink “Baijiu”. If you don’t drink that, you won’t get the best deals.”*

Therefore the Purchasing Director is considered a trans-cultural.

#### **6.4 Relationship between Cultural Adaptation and Mutual Benefits**

Following the same case study protocol, all the informants were asked the question:

“Have mutual benefits of the relationship grown due to cultural adaptation?” all of them answered ‘yes’ to this question. In table 6-11 and 6-12, quotes on mutual benefits from both parties are presented. It can be seen that all the six items of mutual benefits were identified by the key informants from both parties.

Mutual benefits	quotes
Cost reduction benefits	<p>“They improved their capabilities by working with us and then used it developing more customers. CS-B is one of good exemplar suppliers in China. We have had very good cooperation. They have good quality control and good project management. Their attitude is excellent and prices are competitive. All these factors are very helpful to us. We benefit mutually. CS-B is one of our strategic suppliers.” (Senior Buyer, WB-B IPO)</p>
Relationship effectiveness	<p>“Our relationship with CS-B is excellent because we almost gave them all the engine cooling system business. We do single sourcing for this part. We are highly inter-dependent. Top management from both parties are involved.” (Sourcing Manager, WB-B IPO)</p>
Flexible adaptation	<p>“It is typical for me to talk to one of my suppliers like CS-B and go to their General Managers and say: Mr. Chen, I have got this problem; I really need this part delivered tomorrow. They will be delivering tomorrow. He will stop the line and take everything on top of the line.” (Purchasing Director, WB-B IPO)</p>
Collaboration	<p>“It has just been 8 years for them to develop from a shabby state owned enterprise to world influential oil cooling system manufacturer. Their improvement is significant. Eight years ago, it was difficult for them to find an international customer therefore they put their full efforts into the projects with us. I felt they have done very well. (Senior Buyer, WB-B IPO)</p> <p>“You got to do something to demonstrate you want to put something in that relationship like we put our technology and training into our suppliers. Then we got much better supplier and they got something out of it. So they can recognize that there is something for them working with us. And it is a win-win situation.” (Purchasing Director, WB-B IPO)</p>
Trust	<p>“Our Purchasing Director has been in China for so many years and got to know Chinese well. He acts as a bridge between China and the West resulting in a significant increase of purchase from China. He felt the President of CS-B is trustworthy.” (Sourcing Manager, WB-B IPO)</p>
Guanxi quality	<p>“For example, our Purchasing Director has a personal relationship with CS-B’s president and therefore they have renqing, then our relationship developed faster and smoother than expected. That is to say that the process from stranger to trust has been much shortened.” (Sourcing Manager, WB-B IPO)</p>

**Table 6–11: WB-B’s perception of mutual benefits**

Mutual benefits	quotes
Cost reduction benefits	“Because of the help from WB-B, our operations costs have continuously reduced and our profitability increased. This is not only because the economy of scale has been going up but also we adopted advanced management techniques.” (Chief Engineer, CS-B)
Relationship effectiveness	“Our relationship is excellent. We grow rapidly and WB-B has achieved cost saving... CS-B is recognized by WB-B. Our President was selected as a representative of WB-B’s supplier council representing Chinese suppliers. CS-B became an exemplar supplier of WB-B in China. At the annual supplier conference, Chinese suppliers of WB-B were invited to visit CS-B and learn from us.” (Chief Engineer, CS-B)
Flexible adaptation	“The Purchasing Director of WB-B’s IPO knows China very well. The reason why WB-B’s business in China is better than its competitors is that they adapt to Chinese culture better.” (Project Team Leader, CS-B)
Collaboration	“As our best customer, WB-B gave me tremendous help on strategic positioning. We targeted the construction machinery engines... WB-B gave us a lot of help, helping us learn their procedures. I feel this is the biggest problem facing Chinese enterprises... when we traded with WB-B, we started adjusting to their requirements.” (President, CS-B)
Trust	“Our business with WB-B grew significantly since 2001, when our revenue was tens of million RMB. Our revenue reached 200 to 300 million RMB in 2003 and now we have a revenue nearly 1 billion RMB. Our success relies on WB-B to a great extent. Without WB-B, we can not achieve what we have today. And we appreciate WB-B as our first platform of development. We won’t forget WB-B’s help to us.” (President, CS-B)
Guanxi quality	“Our President and the Purchasing Director of WB-B’s IPO have personal relationship. Even if the Purchasing Director leaves his company, we are still friends.” (Project Team Leader, CS-B)

**Table 6–12: CS-B’s perception of mutual benefits**

A questionnaire of mutual benefits was designed for the key informants to fill out on site in order to triangulate the qualitative data collected in interviews. All the six items of mutual benefits identified from literature are listed on the questionnaire and the key informants were asked to identify in which stage of the relationship, the mutual benefits were perceived. There are a number of statements/measurements relating to each mutual benefit. The key informants were asked to rate each statement on a scale from 1 to 5 whether they strongly agree (5) or strongly disagree (1).

The findings presented in table 6-13 shows that at the exploration stage of the relations, there was no perception of any mutual benefits. At the expansion stage, all the IAAs perceived some of the mutual benefits and at the commitment stage, the rest of the mutual benefits were perceived indicating increased items of mutual benefits perceived by the IAAs over time.

Relating table 6-13 to table 6-10, it is shown that at the exploration stage, IAAs from both parties started adapting culturally while there was no mutual benefits perceived; at the expansion stage, the level of cultural adaptation increased as the IAAs gradually adapted to each other and some mutual benefits were perceived. In the final stage of commitment, the level of cultural adaptation stayed the same as that in expansion stage but the rest of the mutual benefits were perceived. It can be seen that cultural adaptation always preceded mutual benefits perceived indicating a probable causal relationship between the two.

Table 6-14 shows that the average scores of mutual benefits are four or more, indicating a high level of perceived mutual benefits at the time when the major field research was conducted. All the IAAs perceived the quality of Guanxi as a familiar Guanxi. The author was not able to get the Purchasing Director of WB-B's IPO and the President of CS-B fill out the questionnaire because the requests were declined. They claimed that they are busy and would like to leave it to his subordinates.

Based on above analysis, it might be concluded that as a relationship develops toward the commitment stage, the level of cultural adaptation increases and as a result, mutual benefits also increase. P6, described as "*As a relationship develops toward the commitment stage, if the level of cultural adaptation increases, it is likely that perceived mutual benefits also increase.*" developed from case A, is supported.

The results in table 6-13 indicate that key informants from the same company perceived similarly. For example the Sourcing Manager and the Senior Buyer of WB-B's IPO only perceived collaboration at different stages. The Project Team Leader and Chief Quality Engineer of CS-B perceived only flexible adaptation at different stages. However the Senior Buyer and Project Team Leader perceived differently in four items: cost reduction benefits, relationship effectiveness, trust and collaboration. This confirms the observation made in the first case, their different perception reflect different expectations of their respective companies.

Generally WB-B's IPO IAAs perceived cost reduction benefits at expansion stage and CS-B's IAAs perceived it at commitment stage. This may be explained as the CS-B had to quote good price in order to attract WB-B at the beginning of the relationship. As the relationship developed and CS-B adapted to Western rules and procedures, CS-B became more efficient and therefore their production cost was reduced.

## **6.5 Chapter Summary**

Some of the interviews with WB-B were conducted during the summer of 2007 as a part of pilot study. The interview with the Purchasing Director of WB-B's IPO was successful and helped identify a higher level of construct of hybrid culture. The rest of the interviews with WB-B's IPO IAAs and CS-B's IAAs were conducted in the summer of 2008 with the revised conceptual framework and interview questions, which were more focused.

The findings from this case support all the propositions developed from case A; therefore achieved a literal replication. Case B is an exemplar partnership between a Western buyer and a Chinese supplier in the sense that it lasted for 10 years till 2008; both parties were very satisfied with the relationship; both companies have grown due to the success of this relationship and it was especially true to CS-B.

The next two chapters provide two bad examples of cultural adaptation, through which a theoretical replication will be achieved.

<b>Process \ IAAs</b>	Sourcing Manager (WB-B)	Senior Buyer (WB-B)	Project Team Leader (CS-B)	Chief Quality Engineer (CS-B)	Chief Engineer (CS-B)
Stage 1: Exploration	No Mutual Benefits	No Mutual Benefits	No Mutual Benefits	No Mutual Benefits	No Mutual Benefits
Stage 2: Expansion	Familiar Guanxi Cost reduction benefits Flexible adaptation Collaboration	Familiar Guanxi Cost reduction benefits Flexible adaptation	Familiar Guanxi Trust Flexible adaptation Collaboration	Familiar Guanxi Trust Collaboration	Familiar Guanxi Flexible adaptation Collaboration
Stage 3: Commitment	Relationship effectiveness Trust	Relationship effectiveness Collaboration Trust	Relationship effectiveness Cost reduction benefits	Relationship effectiveness Cost reduction benefits Flexible adaptation	Relationship effectiveness Cost reduction benefits Trust

**Table 6-13: Perceived mutual benefits over time by key informants**

<b>Mutual benefits \ IAAs</b>		Cost reduction benefits	Relationship effectiveness	Flexible adaptation	Collaboration	Trust	Guanxi quality
WB-B	Sourcing Manager	4.33	4.00	4.25	3.75	4.00	Familiar
	Senior Buyer	5.00	4.80	4.25	4.50	4.50	Familiar
	Average	4.65	4.40	4.25	4.13	4.25	
CS-B	Project Team Leader	4.00	4.00	3.75	3.75	4.50	Familiar
	Chief Quality Engineer	5.00	5.00	4.00	4.75	5.00	Familiar
	Chief Engineer	3.67	4.80	3.75	4.50	4.50	Familiar
	Average score	4.22	4.60	3.83	4.33	4.67	
Average (All)		4.40	4.52	4.00	4.25	4.50	

**Table 6-14: Mutual benefits rated by key informants at the commitment stage**

## **Chapter 7 : Case C Analysis**

### **7.1 Introduction**

Case C is the third case to be analyzed. Interviews with the previous Sourcing Director and the Senior Buyer of Western buyer C's China Sourcing Team were conducted in 2007 as part of the pilot study. The Senior Buyer was interviewed again during the main field work in 2008. Access to Western buyer C and Chinese supplier C was gained through the Group Sourcing Director based in Western buyer C's UK headquarter.

The Marketing Director of Chinese supplier C at the beginning was not willing to be interviewed. Following negotiations between the new Sourcing Director of Western buyer C's China Sourcing Team and the Marketing Director of Chinese supplier C, the Marketing Director finally agreed.

The structure of this chapter is the same as that of the previous case analysis chapters (chapters 5 & 6).

### **7.2 Contextual Considerations**

#### **7.2.1 Western Buyer C**

Western Buyer C (WB-C), a multinational company headquartered in the UK, is a world-leader in ink jet and laser technologies offering total coding and printing solutions. Variable data such as bar codes and traceability codes are printed onto products in industries such as food, beverage and pharmaceutical. It is renowned for the quality and reliability of its technology and unrivalled customer support. It is an innovation led organization, which provides customized solutions to its customers.

The company employs 2,000 people worldwide and sells to more than 120 countries through a global network of 17 subsidiary offices and more than 75 distributors. WB-C's manufacturing facilities are situated in Canada, China, Germany, India, Sweden, UK and USA. The group's sales were 380 Million pounds in 2008, an increase of 9.5% from previous year.

The China Sourcing Team (CST), built in 2004, reports to the Group Sourcing Director of WB-C based in the UK. The previous Sourcing Director of CST was interviewed in the middle of 2007 and then left WB-C for another job. He initiated and developed the relationship with Chinese Supplier C. The existing Sourcing Director of CST was hired in early to middle of 2007. The China Sourcing Team's role is nothing different from that of an IPO and therefore treated as such. The Senior Buyer of WB-C's IPO, who is taking care of Chinese supplier C, has been working in this role for three years.

#### **7.2.2 Chinese Supplier C**

Chinese Supplier C (CS-C) was founded in 1999 and is a leading manufacturer of power supplies in China, specializing in R&D and manufacture of electronics power supply products. It has a 30,000-square-meter factory, more than 1000 employees and 8

production lines. It mainly focuses on telecommunication market and its customers include Nokia, Siemens, Ericsson, Huawei, ZTE, and Utstarcom.

CS-C is a state owned enterprise located in the South of China. It has undergone a fast development since 1999. Its domestic to international customer ratio is 50:50. Having experienced the fast development, CS-C's revenue increased from 12 million USD in 2002 to 100 Million USD in 2007.

CS-C has more than ten functional departments such as production, finance, R & D, logistics and overseas marketing, all reporting to the General Manager. There is a lack of synergy among the functional departments of CS-C, causing delays and ineffectiveness of the company according to the second interview with the Marketing Director over telephone after the face to face one during the autumn of 2008.

The Director of Overseas Marketing Department, holding a PhD in electrical engineering, has a strong technological background and started serving the company as an R & D Engineer. His role is to develop overseas market and maintain relationships with existing foreign customers. The Marketing Director has gone through the whole process of the relationship development with WB-C and is a personal friend of the previous Sourcing Director of CST.

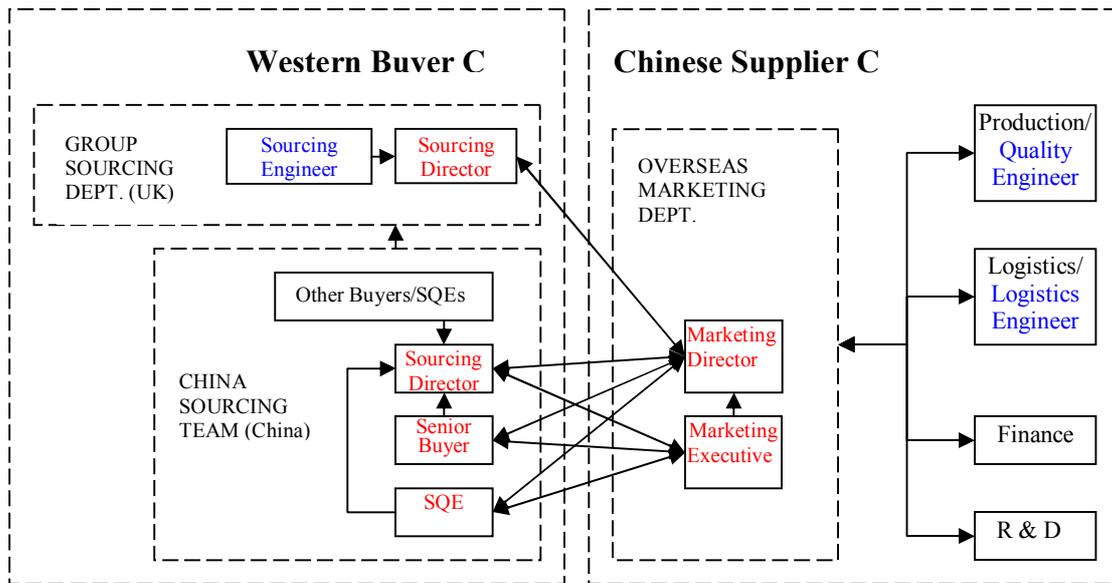
The Marketing Executive of Overseas Marketing Department works under the director and looks after WB-C at operational level. She has been working in this role for almost three years until 2008 and was assigned to look after WB-C immediately after she started at CS-C.

### **7.2.3 WB-C and CS-C relationship**

#### **7.2.3.1 Background- the Relationship**

The relationship between WB-C and CS-C started in early 2005. CS-C is an expert in manufacturing and developing power supply for telecommunication market and has never supplied industrial power supply before it traded with WB-C. Industrial power supply is a new market to CS-C that has been very keen to penetrate into it.

There are nine interviewees highlighted in red and blue in figure 7-1. The six key informants involved (marked in red) are: the Group Sourcing Director based in the UK headquarter, the Sourcing Director, the Senior Buyer (responsible for commercial side of issues) and the Supply Quality Engineer (SQE: responsible for technical side of issues) of WB-C's China Sourcing Team (CST); the Marketing Director and the Marketing Executive of CS-C. The remaining informants (marked in blue) are the Sourcing Engineer of WB-C based in the UK headquarter and the Quality Engineer and the Logistics Engineer of CS-C. The interviewees of the WB-C's Group Sourcing Department based in the UK are all British. The interviewees of WB-C's CST are all Chinese.



**Figure 7-1: WB-C and CS-C interface**

The CST consists of five members: the Sourcing Director, the Senior Buyer, the SQE, another Buyer and another SQE. The Sourcing Director of CST based in Shanghai reports to the Group Sourcing Director of Group Sourcing Department based in the UK. The Senior Buyer and the SQE of the CST report to the Sourcing Director of CST. When the projects are implemented, the Overseas Marketing Department of CS-C acts as a coordinator between WB-C and the functional departments of CS-C involved, therefore CST and Overseas Marketing Department are at the interface between WB-C and CS-C.

The China Sourcing Team interacted most frequently with the Overseas Marketing Department of CS-C. The Group Sourcing Director in the UK has been heavily involved in this relationship. She not only interacted with the Marketing Director of CS-C by emails and telephone calls regularly but also has visited CS-C physically several times a year. The Sourcing Engineer based in the UK visited China once in 2007.

The distance between Shanghai and the location of CS-C is about two hours by air. The total time spent end to end is about four to five hours single trip; therefore if CST personnel visit CS-C, they have to stay there overnight.

### 7.2.3.2 Assessment of the Relationship against Case Selection Criteria

This section is to assess the fit of the relationship with the case selection criteria. In table 7-1, it is shown that: 1) WB-C has a China Sourcing Team in Shanghai, China, which is an equivalent of IPO; 2) WB-C is a manufacturer of industrial and commercial printers and coding machines and CS-C is a manufacturer of power supply; 3) WB-C is headquartered in the UK; 4) WB-C is a printing machine manufacturer with 2000 employees worldwide. The Group Sourcing Department in the UK headquarter is responsible dealing with CS-C. Thus we can conclude that the first four criteria are met.

The following paragraphs serve to evaluate whether or not the fifth criterion has been met.

Case selection criteria	WB-C and CS-C relationship
1. Western buyer has an IPO in China.	WB-C has an China Sourcing Team in Shanghai, China
2. Dyad is from manufacturing industry.	Yes, printing & coding machine manufacturer
3. Western buyer has a subsidiary/headquarter in the UK or US, which deals with the Chinese supplier.	WB-C is headquartered in the UK. Its Group Sourcing Department deals with CS-C.
4. Western buyers are selected from Large scale Western manufacturers	WB-C is a printing machine manufacturer with 2000 employees worldwide.
5. Dyad is in the commitment/partnership stage.	Yes (details to follow)

**Table 7-1: Assessment of case selection criteria**

In order to assess the fit with the fourth criterion, the key informants were asked to rate the six statements of partnership. The results are shown in table 7-2.

IAAs Statements	Group Sourcing Director (WB-C)	CST Sourcing Director (WB-C)	Senior Buyer (WB-C)	Supply Quality Engineer (WB-C)	Marketing Executive (CS-C)	Marketing Director (CS-C)
Commitment in the relationship	5	4	4	4	5	5
Sharing of information	4	4	4	4	5	5
Sharing of risks and rewards	5	4	4	4	4	3
High level of interdependence	3	3	3	3	4	4
Compatible goals	5	4	4	4	4	5
Striving for mutual benefits	5	4	4	4	4	5
<b>Average score</b>	4.5	3.8	3.8	3.8	4.7	4.2

**Table 7-2: Average scores on 6 items of partnership rated by key informants**

It can be seen that both parties agree that their relationship was a partnership because average scores for each item of partnership are all close to or above 4. It is interesting that the three members of the China Sourcing Team perceived the same in each of the six items. The senior levels of the two companies are more optimistic than the three members of the China Sourcing Team.

Table 7-3 shows that there was a high level of inputs into the relationship from both parties; the relationship lasted over three years; the input of both parties has been consistent from beginning of the relationship to the time when the interviews were conducted, which was indicated by the increased number of projects going on between them; WB-C transferred production of existing models of power supply from another supplier to CS-C in order to maintain the relationship. CS-C was keen to penetrate into the industrial power supply market; therefore engage resources to maintain the relationship.

Commitment characteristics	WB-C	CS-C
Level of inputs	High. Dedicated personnel (Senior Buyer of CST)	High. Dedicated personnel and engineers' time
Duration of the relationship	3 and more years	
Consistency of the input	The number of project/products sourced from CS-C increased over time.	Continuously investing engineers' time in R & D
Purposely engaged resources to maintain the relationship	Yes. The aim of WB-B was to maintain the relationship with CS-C as a strategic partnership. Transferred the production from another supplier to CS-C.	Yes. WB-C represented a new attractive market to CS-C; therefore was willing to invest resources to keep the relationship going.

**Table 7-3: Commitment characteristics of WB-C and CS-C**

Based on this analysis, it is concluded that the relationship was a partnership in the commitment stage and therefore the fourth criterion is met.

### 7.3 Cultural Adaptation Process

Adopting the same structure as the previous two chapters, this section first identifies the time periods of the three stages of the relationship. Then the findings concerning the cultural adaptation processes in terms of the three cultural behavioural differences and the hybrid culture are presented.

#### 7.3.1 Three-stage Relationship

WB-C started doing business with CS-C by co-developing its new generation of power supply in early 2005. Being satisfied with the R & D and manufacturing capability of CS-C and seeing that this capability can not be obtained in house and from the only supplier based in Hong Kong, from which they sourced the power supply before trading with CS-C, it started transferring the production of existing models of power supply from the HK based company to CS-C in late 2005 to early 2006. The HK based company had operations in mainland China.

Since 2007, mass production has gradually taken place for WB-C's three new models of power supply in CS-C. Their relationship has since stabilized. Both are keen to maintain the relationship to each other's satisfaction. This is evidenced in the following response provided by the Senior Buyer of WB-C's China Sourcing Team.

*"We started doing business with CS-C by initiating an R & D project in 2005. Then we started sourcing an existing model of power supply from them in early 2006. We consider the product a high value, medium volume and medium product complexity in nature. We are not the biggest customer of CS-C but we represent a new attractive market with higher profit margin than telecommunication market they have been serving... We currently source three existing models of power supply from them and have cooperated on two R & D projects with them. The R & D projects have lasted for a long time. We requested them to mass produce the new products from the middle of 2007. The volume we purchase from them will be bigger and bigger."*

The Senior Buyer's view is corroborated by the Marketing Director of CS-C:

*“At the beginning of the relationship in 2005, they asked us to develop a new generation of power supply for them. Then they found that we are very capable of designing and manufacturing and started moving their existing projects from another company to us in 2006. They gave us a new development project in 2007... They plan to transfer all the power supply projects to us and keep long term relationship with us. Although the volume they purchase from us is not so great now comparing to that of some of our other customers, we believe they are a customer with great potential. Moreover we are very interested in the market they are in; therefore we list them our top 10 important customers since 2007.”*

From above, it seems that the timescale of the three stages of the relationship can be roughly divided as follows:

1. Exploration stage: early 2005 to late 2005
2. Expansion stage: early 2006-middle of 2007
3. Commitment stage: end of 2007 onward

### **7.3.2 Adaptation to the Cultural Behavioural Differences**

In this section, the findings on how WB-C and CS-C adapted to each other from the exploration to the commitment stage of the relationship in terms of the three cultural behavioural differences are presented. The alpha numerics in brackets are the indicators to differentiate different levels of cultural adaptation and are detailed in table 4-9.

#### **7.3.2.1 Adaptation to Family Orientation vs. Self Interest**

In table 7-4, the Senior Buyer of WB-C's CST showed his understanding of this difference and claimed that the CST's IAAs 'understood' this difference at the beginning of the relationship indicating that they 'understood' this difference at the exploration stage (U2).

The Group Sourcing Director of WB-C explained how the CST's IAAs adapted from individualistic to a collective style of working and claimed that they had to adapt in order to interact smoothly with CS-C about two years ago, when the relationship was at the expansion stage indicating that they adopted the behaviours of collective thinking consistent with Chinese culture reactively (A1). The Sourcing Director and SQE of WB-C's CST claimed that both parties had to adapt to each other on this difference at the time of this research conducted. There was no evidence to suggest that WB-C's IAAs have at any stage 'learnt' family orientation proactively. Therefore it might be concluded that WB-C's IAAs have 'adjusted' to family orientation during the expansion and commitment stages of the relationship.

The Marketing Director of CS-C acknowledged this difference and claimed that they 'understood' this at the beginning of the relationship due to the strong message on ethical behaviour sent by WB-C (U3) and that CS-C's IAAs started following this requirement in 2006 when the relationship was at the expansion stage. This was corroborated by the Marketing Executive of CS-C and the Sourcing Director of WB-C's CST, who claimed that at the time of the research CS-C's IAAs had to follow this requirement indicating that they adopted the behaviours of respecting individual

employees' welfare consistent with a Western culture reactively because they 'feel right' (A1). Therefore it is concluded that CS-C's IAAs have 'adjusted' to self interest at the expansion and commitment stages.

Since both parties adjusted to each other in this aspect, P1 developed from case A is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
Western Buyer C	<p>“It is a norm for employees of CS-C to work overtime. It is sometimes implicitly encouraged by its managers. Western firms like us don’t normally do that. Employees’ off duty time is respected as much as possible. We understand this since we traded with CS-C.” (Senior Buyer, WB-C CST)</p> <p>(Understand: indicator U2)</p>	<p>“I am thinking of our team in China. There are cultural differences between the team in the UK and the one in China. When somebody’s project is successful in the UK team, they are proud of and celebrate that as an individual. It is not very obvious for the China team. They celebrate it collectively whereas we tend to recognize an individual’s achievement. China Sourcing Team tends to put their group goal over their personal one. At the beginning of the relationship, it was not like that. The China Sourcing Team was an extension of our Group Sourcing Department therefore followed the Western way. I think they had to change although they are not willing to because they work with Chinese suppliers like CS-C. CS-C also adapted to our individual approach by recognizing individual achievement and reward individuals more although didn’t change too much. [The author: When did you adapt?] It would be 2 years ago.” (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>	<p>“We adapted to each other on this. We require our Chinese suppliers like CS-C to treat their employees ethically. If we find any unethical issue such as using child labour or too much working over time in this Chinese supplier, we will terminate sourcing from them immediately.” (Sourcing Director, WB-C CST)</p> <p>“CS-C and we adapted to each other equally on this.” (SQE, WB-C CST)</p> <p>(Adjust: indicator A1)</p>
Chinese Supplier C	<p>“Western firms care more about their employees’ welfare and well being than we do. They also ask us to take care of our employee’s welfare, which is represented in their requirements. We were aware of this at the beginning of the relationship when they sent strong message to us.” (Marketing Director, CS-C)</p> <p>(Understand: indicator U3)</p>	<p>“WB-C pays much attention to the basic welfare of its employees as part of its policy. We have been required to follow this. The employees of this company will sacrifice their personal interest like work overtime for the company if needed but we couldn’t let this happen all the time. We also need to protect their personal interests. We adapted to this about one year after the relationship started.” (Marketing Director, CS-C)</p> <p>(Adjust: indicator A1)</p>	<p>“CST now is not so different from us and put collective interest first. We are also influenced by them, for example, respecting individual interest and being humane to employees.” (Marketing Executive, CS-C)</p> <p>(Adjust: indicator A1)</p>

**Table 7–4: Adaptation to Family Orientation vs. Self Interest**

### 7.3.2.2 Adaptation to Guanxi Network vs. Multiple Institutions

Shown in table 7-5, the Group Sourcing Director of WB-C showed her understanding of this difference (U2) and claimed that she and the CST's IAAs gradually achieved a level of understanding that they need to get management's support before getting things done, which is different from Western firms following rules and procedures in 2005. This indicates that this difference was acknowledged and accepted by her and CST's IAAs at the exploration stage of the relationship (U3).

The Group Sourcing Director of WB-C claimed that they had to adapt by getting CS-C's management's support when there is something that need to be addressed rather than approaching their counterpart in CS-C in 2006. This view was corroborated by the Sourcing Director of WB-C's CST.

I observed evidence of tension between the Sourcing Director of WB-C's CST and the Marketing Director of CS-C. When they discussed my visit to CS-C on the phone, they argued with each other and the Marketing Director of CS-C hung up the phone without saying anything with my presence, because he was not willing to receive me. In order to get things done, the Sourcing Director had to call back again and explained that was what the Group Sourcing Director in the UK wanted, and then the Marketing Director accepted my visit involuntarily.

According to the Sourcing Director of WB-C's CST, there were quite a few occasions that they argued with each other. Later when I interviewed the Marketing Director, I found that he was not satisfied with the CST's Sourcing Director's performance. One example given by him was that when they found some design problems with the new R & D project and communicated these with CST, the CST did not listen to them but their headquarter engineers. It eventually proved that the headquarter engineers were wrong and this process resulted in a loss of a couple of months time in the design process. The Marketing Director complained that the CST especially the Sourcing Director of CST did not assume a proactive and constructive role between WB-C's headquarter and CS-C.

Although the Group Sourcing Director of WB-C attempted to learn Chinese culture, she was based in the UK and had little opportunity to interact with CS-C; therefore there was no evidence to suggest that WB-C's IAAs have reached the 'learn' level in the adaptation to Guanxi network.

Indeed, WB-C's IAAs appear to have adopted Guanxi network behaviours reactively thus fitting the indicator for 'adjust' (A1). Therefore they reached the "adjust" level of cultural adaptation process at the expansion and commitment stages. This is also triangulated by the observation of response of the Sourcing Director of CST documented in the field notes:

*She has worked for strategy department of Western firms in China for many years; therefore has developed a Western thinking style paying attention to procedures and rules and ignoring Guanxi. When she deals with CS-C, she also uses the Western thinking. She is not willing to adapt to Guanxi although she has to.*

The Marketing Director of CS-C acknowledged this difference and claimed that they 'understood' it at the beginning of the relationship (U3). This was corroborated by the Group Sourcing Director of WB-C, who claimed that CS-C gradually achieved a level of understanding of WB-B's rules and procedures.

The Marketing Director and Marketing Executive of CS-C claimed that they have had to follow WB-C's requirements and rules since 2006. The Marketing Executive stated that CS-C sometimes did not satisfy WB-C's requirements at the time of the research conducted. The SQE of WB-C's CST also expressed the view that CS-C at the time of research conducted needed improvements on following WB-C's rules and procedures. The tension between the Marketing Director of CS-C and the Sourcing Director of WB-C might contribute to the difficulty for CS-C to follow WB-C's rules and procedures.

This evidence shows, in line with indicator A1 in table 4-9, that CS-C's IAAs adopted the behaviours of following WB-C's rules and procedures consistent with Western culture reactively; therefore they adjusted to multiple institutions represented by Western rules and procedures at the expansion and commitment stages.

Because both parties only adjusted to each other in this aspect while P2 states that Chinese suppliers IAAs adjust to Western rules and procedures and Western buyer IAAs learn Guanxi network, therefore P2 is partially supported. This proposition is supported for the Chinese supplier's part not for the Western buyer's part.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer C</b>	<p><i>“I think their adaptation started at the beginning of the relationship when everything was written down and went on with it. They don’t really believe it one way or another. They did it because they knew we wanted it all written down. I think they gradually understood why we insist on this. At the very onset of the relationship, we made sure they understood our requirements... We got to adapt to Guanxi as well. We gradually understood this difference in the first year of the relationship.”</i> (Group Sourcing Director, WB-C)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p><i>“I do the same as what CS-C people do in this aspect. I feel that our Group Sourcing Director spent a lot of time on studying how Chinese behave and Chinese culture. She has adapted to it and is very considerate on Chinese hierarchy and harmony. We adapted to this in the middle of the relationship.”</i> (Senior Buyer, WB-C CST)</p> <p><i>“CS-C has to adapt to us. We stick to our technical requirements, which are not negotiable. CS-C has to follow procedures but sometimes they don’t. The individuals decide what to do next in CS-C. They started adapting to us at the very beginning; however we are not very satisfied with them even now. But to be fair, they have made some improvements.”</i> (SQE, WB-C CST)</p> <p><i>“Initially our people approached their counterparts in CS-C; however this did not sort out any problem because their counterparts were very slow to respond or did not respond at all. Gradually we found that we got to get management’s support. We went to the Marketing Director of CS-C whenever there was a problem. That was in 2006.”</i> (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We emphasize procedures and CS-C relies on individual decisions. We have to adapt to each other in this aspect. This is one of the major cultural differences between us. They have made effort to adapt to our procedures such as on how to prepare documents. We need to keep training them on this. We adapt to them as well. Whenever there is a problem, we will go to the Marketing Director because without the management support, it is difficult to get jobs done in Chinese suppliers.”</i> (Sourcing Director, WB-C CST)</p> <p><i>“Chinese pay great attention to Guanxi and Westerners talk about networking. CS-C sometimes does not understand why we go through the procedures and consider them unnecessary. But we stick to our procedures and they have to adapt to us. They are improving their performance. Sometimes they still can’t follow our requirements closely then we have to explain our requirements to CS-C people one by one.”</i> (Senior Buyer, WB-C CST)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier C</b>	<p><i>“Western firms pay much attention on procedures. Chinese firms are different in a way that they focus on Guanxi. We understand at the beginning of the relationship.”</i> (Marketing Director, CS-C)</p> <p>(Understand: indicator U3)</p>	<p><i>“Guanxi can bring you opportunities but is not the key to get business. The product quality is. We have followed their procedures and requirements since 2006.”</i> (Marketing Director, CS-C)</p> <p>(Adjust: indicator A1) in relation to the statement by WB-B’s SQE above</p>	<p><i>“In fact, we adapt to WB-C. They are very strict on their requirements and procedures. We would cooperate with them. We adapted to their rules in 2006. I feel their requirements are very strict and they are not always satisfied with our performance.”</i> (Marketing Executive, CS-C)</p> <p>(Adjust: indicator A1)</p>

**Table 7–5: Adaptation to Guanxi Network vs. Multiple Institutions**

### 7.3.2.3 Adaptation to Guanxi Relationship Building vs. Western Relationship Building Process

There are four cultural behavioural differences that define the root difference of Guanxi relationship building (GR) vs. Western relationship building process (WR). These include:

1. Flexible nature of GR featured by the interplay of *face* and *renqing* vs. progressive nature of WR
2. Yin-yang principle of GR vs. dualistic thinking of WR
3. Personal informal nature of GR vs. corporate to corporate formal nature of WR
4. Long term orientation of GR vs. short term orientation of WR

#### 7.3.2.3.1 Adaptation to Flexible Nature of GR vs. Progressive Nature of WR

As shown in table 7-6, the Group Sourcing Director claimed that WB-C's IAAs at the beginning of the relationship 'understood' this difference by giving an example that CS-C worked with WB-C mainly because CS-C's IAAs had good relationship with the previous Sourcing Director of CST and therefore gave 'face' to him. This is different from the Western step by step progressive relationship building process. This shows that they 'understood' this difference (U2) at the exploration stage.

After WB-C's IAAs were aware of this difference, they were cautious to engage with CS-C's IAAs. The Group Sourcing Director and the Senior Buyer of WB-C stated that they had to adapt to *face* and *renqing* in 2007, when the relationship was at the expansion stage except for the Supplier Quality Engineer, who did not perceive any adaptation to *face* and *renqing*:

*"CS-C had to adapt to our step by step relationship building process and I don't give them face if they don't follow our procedures."*

This is understandable because his job is focused on quality and technical not commercial issues. However his view can not represent the commercial side of CST.

The CS-C's IAAs corroborated this view of WB-C's IAAs except for the SQE that WB-C's IAAs adapted to *face* and *renqing* but they did not perceive strongly at the time of the research conducted. WB-C's IAAs adopted the behaviours of saving *face* and exchange of *renqing* consistent with Chinese culture reactively because they 'feel right' since 2007 (A1); therefore they 'adjusted' to *face* and *renqing* of GR at the expansion and commitment stages.

The Marketing Director of CS-C claimed that they have gradually achieved a level of understanding of this difference at the beginning of the relationship (U3). IAAs of both parties agreed that CS-C's IAAs have adapted to the step by step relationship building process. The Marketing Executive claimed that CS-C's IAAs have had to adapt since 2006, when the relationship was at expansion stage.

According to the Group Sourcing Director of WB-C, CS-C's IAAs complained that the relationship did not grow as quickly as they expected and were not willing to follow the

step by step relationship building process although they had to because they were still used to the flexible nature of GR at the time of the research conducted. This evidence suggests that CS-C's IAAs adopted the behaviours of following step by step relationship building consistent with Western culture reactively because they 'feel right' (A1) and temporarily shifted behaviour more appropriate to the other's culture (A2). Therefore they reached the "adjust" level in the adaptation to the step by step relationship building at the expansion and commitment stages.

Because both parties adjusted to each in this aspect, which is aligned with the statement of P3a, therefore P3a is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer C</b>	<p><i>“When you started it, you don’t have a good relationship at all. When you choose supplier, you don’t have relationship at all. You went on recommendation from another company. In this case, it was xxx (the previous Sourcing Director’s name), who joined WB-C. As a Western firm, we select their capability not the relationship. CS-C chose us based on the good relationship with xxx. They agreed to work with us not because our high volume of products but they have good relationship with xxx, want to work with him and give face to him. There is renqing between them. We understood this at the beginning of the relationship.”</i> (Group Sourcing Director, WB-C)</p> <p>(Understand: indicator U2)</p>	<p><i>“After we found this difference, We have been very cautious. I spent time on how to engage with them and how to save their faces. I won’t go in and say “hi, this is me; this is how we do business.” We spent a lot of time to understand their capability and the opportunity to do business together ...The relationship building with CS-C is really more successful than when it started. We felt more like a good relationship now. They have followed our step by step relationship building. As a Western company, you have to consider face and renqing and respect them otherwise you wouldn’t succeed in China. I feel we have adapted in last November time.”</i> (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>	<p><i>“Western firms follow step by step procedure to build a relationship. CS-C has to adapt to us following our relationship building process. Because CS-C is a Chinese firm, we also have to adapt to Chinese face and renqing. This is why we (China Sourcing Team) are here. Our previous Sourcing Director is good at building Guanxi.”</i> (Senior Buyer, WB-C CST)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier C</b>	<p><i>“The WB-C’s CST is helpful. They can’t justify their presence if they don’t develop good Chinese suppliers. So they help us improve and meet their requirements. We have gradually understood their step by step relationship building process, which is different from ours. Ours is based on Guanxi. [The author: Did they save your face?] Yes, but I don’t strongly feel that.”</i> (Marketing Director, CS-C)</p> <p>(Understand: indicator U3)</p>	<p><i>“Sometimes WB-C’s CST gives us face and exchange renqing with us but sometimes they are very strict. We have had to follow their step by step relationship building since 2006, although we expect the relationship to grow faster.”</i> (Marketing Executive, CS-C)</p> <p>(Adjust: indicators A1 &amp; A2)</p>	<p><i>“One of the things we did early on was to make a commitment on the volume that we will give to them. But CS-C said they want more. This just takes time. Xxx (name of the previous Sourcing Director of CST) played a very important role and said that we know each other for a long time and you can trust these guys. WB-C is not a company which sells one product and goes away and we have very high sense of responsibility and moral standards. At the same time, we have a set of relationship building procedures that we need to follow. So don’t go backward. We are honest on what we can do.”</i> (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicators A1 &amp; A2)</p>

**Table 7–6: Adaptation to flexible nature of GR vs. progressive nature of WR**

### **7.3.2.3.2 Adaptation to Yin-yang Principle of GR vs. Dualistic Thinking of WR**

In table 7-7, the Senior Buyer of WB-C's CST showed her understanding of this difference and claimed that the CST's IAAs understood this difference at the beginning of the relationship (U2). Since the previous Sourcing Director of CST left the company; her claim can not be corroborated. However according to the Marketing Executive of CS-C, the previous Sourcing Director has understood this difference well.

The Group Sourcing Director of WB-C's IAAs did not recognize that they behaved based on Yin-yang principle in 2007 until she was introduced the concept indicating that they used this knowledge of Chinese culture without realising it (A4). Therefore WB-C's IAAs 'adjusted' to Yin-yang principle at the expansion stage. The Sourcing Director of CST also claimed that she was not willing to adapt to Yin-yang principle although they had to at the time when the interview was conducted indicating that they adopted the behaviours consistent with Chinese culture reactively (A1). The adaptation of WB-C's IAAs was also corroborated by the CS-C's IAAs. It might be concluded that WB-C's IAAs 'adjusted' to Yin-yang principle at the commitment stage.

The Marketing Director and the Marketing Executive of CS-C showed their understanding of this difference (U2) and claimed that CS-C's IAAs understood this difference since the beginning of the relationship by presenting an example but they tended not to adapt to the Western dualistic or straightforward way of thinking indicating that this cultural behavioural difference is acknowledged and accepted only from exploration through to commitment stage of the relationship (U3).

Because as the relationship evolved toward the commitment stage, WB-C's IAAs only adjusted to Yin-yang principle and CS-C's IAAs understood dualistic thinking, while P3b states that Western buyer IAAs learn Yin-yang principle and Chinese supplier IAAs understand dualistic thinking, therefore P3b is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer C</b>	<p><i>“I feel that Yin-yang principle is an art of compromise and to get things done. Western people are more straightforward. We adapt to CS-C on this. We China Sourcing Team can understand and adapt because we are Chinese working for a Western company, therefore we understand both cultures...Our previous Sourcing Director has a deep understanding of this difference and had trained us on cultural differences. We understood this at the beginning of the relationship”</i>(Senior Buyer, WB-C CST)</p> <p>(Understand: indicator U2)</p>	<p><i>“Yeah, I just realized that the Marketing Director was in that situation. He was pushing. This isn’t the Western style. I just realized that this is the pushing of Yin-yang strategy. But I think there was adaptation from us. We didn’t try to push back. We pulled back. If this is a Western to Western relationship, there will be much more arguments on who is right. This happened last year.”</i> (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A4)</p>	<p><i>“We CST adapted. For example, we sometimes compromise and sometimes are very tough. It is like “push” and “pull”. We were cautious and patient when the Marketing Director of CS-C pushed and tried not to push back.”</i> (Senior buyer, WB-C CST)</p> <p><i>“I don’t like the “push” and “pull” of Yin-yang principle. I like the straightforward way of doing things. I feel we both have “pull” and “push” and finally find a compromised point where both can accept. Sometimes they don’t understand why we do this and that and our relationship was tense. At that time, I said “come on, let’s see what other options we have. We try not to confront them.”</i> (Sourcing Director, WB-C CST)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier C</b>	<p><i>“Westerners are straightforward and see things as ‘either right or wrong’. Yin-yang means that objects are changing, dynamic and transformable. In the relationship with WB-C, when we felt our business grew slowly, we stimulated them by saying to them we had cooperated for some time and our business should grow faster. Then they gave us more business. We are an important supplier to them having great impact on their business. They have no other way but adapt. We understood this at the beginning of the relationship but don’t adapt”</i> (Marketing Director, CS-C)</p> <p>(Understand: indicators U2 &amp; U3)</p>	<p><i>“They (CST’s IAs) also know how to implement Yin-yang principle. When our Marketing Director pushed to ask for more business last year, WB-C pulled back by giving us more business. They especially the previous Sourcing Director of CST adapted to this aspect of Guanxi.”</i> (Marketing Executive, CS-C)</p> <p>(Understand: indicator U3)</p>	<p>(Understand)</p>

**Table 7–7: Adaptation to Yin-yang principle of GR vs. dualistic thinking of WR**

### 7.3.2.3.3 Adaptation to Personal Informal Nature of GR vs. Corporate to Corporate Formal Nature of WR

In table 7-8, the Group Sourcing Director of WB-C stated that WB-C's IAAs understood at the beginning of the relationship that Chinese rely on personal relationships because she can see that the relationship with CS-C was initiated based on personal relationship between the previous Sourcing Director of CST and the Marketing Director of CS-C. Therefore it might be concluded that WB-C's IAAs 'understood' this difference at the exploration stage of this relationship.

According to the Group Sourcing Director, the previous Sourcing Director of CST and the Marketing Director of CS-C were friends when he joined WB-C and the previous Sourcing Director initiated the relationship between the two companies. This fact, however, does not suggest all the IAAs of WB-C adapted at the beginning of the relationship.

The Senior Buyer claimed that WB-C's IAAs built and maintained personal relationship with CS-C's IAAs but kept some distance from CS-C's IAAs as well and that they adapted to the personal informal relationship building since 2007, when the relationship was at expansion stage. This was corroborated by the Marketing Executive of CS-C, who gave an example showing that WB-C's IAAs were not willing to be too close to CS-C's IAAs. The Marketing Executive stated that the WB-C's IAAs declined their offering to show them around the city several times in 2008 indicating that WB-C's IAAs interacted with CS-C's IAAs if needed only at the commitment stage (A3).

IAAs from both parties agreed that they had personal relationship with each other to some extent. They talked about the projects on which they were working and personal lives in informal settings such as restaurants. The Group Sourcing Director considered that the relationship between the previous Sourcing Director of WB-C's CST and the Marketing Director of CS-C played a key role in the difficult times when WB-C was slow to mass produce its products in CS-C. She considered herself a friend of the Marketing Director not long before the interview with her was conducted.

Marketing Director of CS-C considered that the relationship was not as strong as the ones he had with some other foreign customers at the time of the research conducted, although he admitted that his relationship with the Group Sourcing Director a personal one. Both the Group Sourcing Director and the Senior Buyer of WB-C considered personal relationship important and they needed to build stronger personal relationship with the Marketing Director of CS-C. As the Sourcing Director of WB-C's CST stated: *"I feel we adapted but I don't feel strongly the personal relationship has been built."*

This may be because she was new to the company and building relationship takes time. It might also suggest that she has not 'learnt' the personal informal relationship building.

This evidence suggests that WB-C's IAAs adopted the personal informal relationship building behaviours consistent with Chinese culture reactively because they 'feel right' (A1) and interacted with CS-C's IAAs if needed only (A3). Therefore WB-C's IAAs

‘adjusted’ to personal informal nature of Guanxi relationship building process at the expansion and commitment stages.

CS-C’s IAAs acknowledged and accepted this difference (U3) but they built and attempted to maintain personal informal relationship with WB-C’s IAA, which shows that they ‘understood’ it but do not adapt to formal and corporate nature of Western relationship building process at the time when the research was conducted. The Marketing Executive claimed that they ‘understood’ this at the beginning of the relationship. Therefore it might be concluded that CS-C’s IAAs ‘understood’ this difference from exploration through to commitment stage of the relationship.

Because WB-C’s IAAs adjusted to personal informal nature of Guanxi relationship building process and CS-C’s IAAs understood this difference, while P3c states that Western buyer IAAs learn personal informal nature of Guanxi relationship building process and Chinese supplier IAAs understand the difference, therefore P3c is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer C</b>	<p><i>“When you started it, you don’t have a good relationship at all. When you choose supplier, you don’t have relationship at all. You went on recommendation from another company. In this case, it was xxx (the previous Sourcing Director’s name), who joined WB-C. As a Western firm, we select their capability not the relationship. CS-C chose us based on the good relationship with xxx. They agreed to work with us not because our high volume of our product but they has good relationship with xxx and they want to work with him. We understood this at the beginning of the relationship.”</i> (Group Sourcing Director, WB-C)</p> <p>(Understand: indicator U2)</p>	<p><i>“We emphasize personal relationship not only with CS-C but with all of our Chinese suppliers because they prefer. We are considerate about our Chinese suppliers. We build Guanxi and personal relationship with the Marketing Director of CS-C but we also keep some distance from them because we don’t want to be too close. However our previous Sourcing Director of CST was a very good friend of the Marketing Director... We adapted to this last year (2007).”</i> (Senior Buyer, WB-C CST)</p> <p>(Adjust: indicator A3) in relation to Marketing Executive’s statement</p>	<p><i>“This is clearly the way that when we visited China, it is very important for them to be a good host to take us out to have a big lunch and a banquet during the evening... [The author: You have built the personal relationship with CS-C?] Yeah, this is very encouraging... I think the biggest difficulty is that the Marketing Director of CS-C clearly felt an obligation to xxx (name of previous Sourcing Director of WB-C CST). We in the UK are very slow to get products out. The Marketing Director was in a difficult position to pay duty to him. Clearly he (the Marketing Director) wanted to support him.”</i> (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier C</b>	<p><i>“Western firms like WB-C tend to hold formal meetings. We prefer informal and personal relationships. We understood this at the beginning of the relationship. They (WB-C’s IAAs) respect us and are not so pushing. Sometimes we had dinners together and talked about personal lives. To some extent, we have personal relationship, but when we offered to show them around the city, they declined with the excuse of being busy several times in this year.”</i> (Marketing Executive, CS-C)</p> <p>(Understand: indicator U3)</p>	<p><i>“Western firms like WB-C tend to build formal relationship with us, however in the relationship with WB-C, I have played an important role. I have personal relationship with xxx (name of the previous Sourcing Director of CST). When I went to Shanghai (CST), they would invite me for dinners. I also invited them when they were here.”</i> (Marketing Director, CS-C)</p> <p>(Understand: U3)</p>	<p>(Understand)</p>

**Table 7–8: Adaptation to personal informal nature of GR vs. corporate to corporate formal nature of WR**

#### **7.3.2.3.4 Adaptation to Long Term Orientation of GR vs. Short Term Orientation of WR**

Table 7-9 shows that the Senior Buyer of WB-C acknowledged this difference and claimed that WB-C's IAAs have understood it at the beginning of the relationship. The Group Sourcing Director of WB-C recognized that they needed to make more efforts to build long term relationship dealing with Chinese suppliers than dealing with British suppliers at the beginning of the relationship showing that they have accepted this difference (U3) at the exploration stage of the relationship.

The Group Sourcing Director of WB-C claimed that they have had to adapt by being more committed to long term relationship with and repeatedly making this intention clear to CS-C since 2006, when the relationship was at the expansion stage. The Senior Buyer mentioned that in order to build long term relationship with CS-C at corporate level, they had to build long term personal relationship with CS-C's IAAs, on which they have been working and that they adapted in 2007. The evidence suggests that WB-C's IAAs adopted the long term orientation consistent with Chinese culture reactively (A1); therefore it is concluded that they 'adjusted' to the long term orientation at the expansion stage of the relationship.

WB-C's IAAs claimed that they aim for long term relationship with CS-C at the corporate level. None but the Senior Buyer realized that at the time of the research conducted that building long term relationship with key individuals is more important indicating that most of WB-C's IAAs have not 'learnt' the essence of long term orientation in a Chinese context. This is related to the last section on the adaptation to personal informal nature of GR vs. corporate to corporate formal nature of WR. Since WB-C's IAAs did not 'learn' but 'adjusted' to personal informal nature of GR, they did not 'learn' long term orientation of GR. Therefore, it might be concluded that WB-C's IAAs 'adjusted' to long term orientation of GR at the expansion and commitment stages.

CS-C's IAAs considered that the long term orientation is a natural and normal way at the time the research conducted. Short term orientation is wrong and misguided (NA1); therefore they did not understand and adapt to this difference at all from exploration to commitment stage of the relationship.

Proposition 3d states that Chinese supplier IAAs tend not to adapt to short term orientation of WR and Western buyer IAAs tend to learn long term orientation. In this case, WB-C's IAAs adjusted to long term orientation and CS-C did not adapt to short term orientation, therefore P3d is partially rejected.

Proposition 3 is a summary of proposition 3a-3d. Since propositions 3b-d are partially rejected, P3 is also partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer C</b>	<p>“Chinese tend to be long term orientated and Westerners tend to be short term orientated. We understood this at the beginning of the relationship.” (Senior Buyer, WB-C CST)</p> <p>“Yeah, we recognized at the beginning there were a much more efforts, which need to be made than dealing with UK suppliers, in which case we just present the fact, figures, and statistics. This is the programme. This is what going to happen.” Group Sourcing Director, WB-C)</p> <p>(Understand: indicator U3)</p>	<p>“We hope that we have long term relationship with our suppliers due to the nature of our products, which requires continuous technical innovation. If we want to build long term relationship with CS-C, we have to build long term personal relationship with key personnel of CS-C. We have built the long term personal relationship with CS-C’s key personnel since 2007.” (Senior Buyer, WB-C CST)</p> <p>“...This is how it is developed whereas for CS-C, I had to spend much more time onto convincing them that we still do the right thing; we are still committed to the programme and committed to the long term relationship. I think we have adapted and we adapted in about 2006.” (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>	<p>“We aim for long term relationship. The company policy does not allow us to switch suppliers too often. If we do, we have to adapt to the new one from scratch.” (Sourcing Director, WB-C CST)</p> <p>“For CS-C, we are going to ask them to supply the next generation of power supply in the long term.” (Group Sourcing Director, WB-C)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier C</b>	<p>(NA)</p>	<p>“They adapted to our long term orientation. If we find that a company just wants to do business with us for a short period of time, we wouldn’t take the relationship with them seriously.” (Marketing Executive, CS-C)</p> <p>(NA: indicator NA1)</p>	<p>“I personally prefer personal long term relationship. If we become good friends, even you leave that company, we are still friends. This long term relationship is meaningful. For example, when the Group Sourcing Director visited us, I presented her some small gifts. They adapted to our long term orientation.” ( Marketing Director, CS-C)</p> <p>(NA: indicator NA1)</p>

**Table 7–9: Adaptation to long term orientation of GR vs. short term orientation of WR (NA: no adaptation)**

### 7.3.3 Bilateral and Gradual Adaptation

All the six key informants claimed that their adaptation behaviour was gradual and incremental and included changes from both parties. In table 7-10, which is a summary table of tables 7-4 to 7-9, it can also be seen that WB-C's IAAs adjusted to Guanxi relationship building process and family orientation and CS-C's IAAs adjusted to multiple institutions represented by rules and procedures required by WB-C and self interest, therefore both parties adapted in certain aspects; therefore it is bilateral. The adaptation behaviours tend to change from the level of "understand" to the level of "adjust", therefore they were gradual.

Based on the evidence and analysis above, P4, which proposes the cultural adaptation is bilateral and gradual in nature, is supported.

### 7.3.4 Hybrid Culture Interface

#### 7.3.4.1 Existence of a Hybrid Culture

When the key informants were asked "is there a composite culture formed due to cultural adaptation between WB-C and CS-C?", all of them answered "yes". The key informants were then asked what the composite culture is. Each one of them perceived it a combination of Western rules and procedures and Chinese Guanxi. The views of the highest level of management of respective companies interviewed are selected because they have gone through the whole process of relationship building and were the decision makers of each company.

The Group Sourcing Director of WB-C states that:

*"Yes, there is a composite culture between the two companies. To deal with Chinese suppliers like CS-C, you need to build Guanxi with them, however at the same time we can't be flexible on our basic requirements. We make sure they understand our requirements at the very beginning. This ensures we have good relationship with this Chinese supplier."*

She implied that the hybrid culture is one including both Guanxi and Western rules and procedures. Her view has been corroborated by the Marketing Director of CS-C:

*"Yes, there is composite culture developed between them and us. We learn from WB-C the procedures and rules. We emphasized more on the personal capability before. They have learnt on how to deal with Chinese suppliers like us and Chinese culture. We both benefit a great deal from each other."*

Since all the IAAs agreed that cultural adaptation creates mutual benefits and a hybrid culture between WB-C and CS-C and that the hybrid culture is a combination of Western rules and procedures and Guanxi, therefore P5 and P5a are supported.

Stages		Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Behavioural differences</b>				
<b>Family orientation vs. self interest</b>		WB-C: <i>Understand</i> CS-C: <i>Understand</i>	WB-C <i>adjusts</i> to family orientation. CS-C <i>adjusts</i> to self interest.	WB-C: <i>Adjust</i> CS-C: <i>Adjust</i>
<b>Guanxi network vs. multiple institutions</b>		WB-C: <i>Understand</i> CS-C: <i>Adjust</i>	WB-C <i>adjusts</i> to harmony within hierarchy feature of Guanxi network. CS-C <i>adjusts</i> to multiple institutions represented by Western operational rules and regulation.	WB-C: <i>Adjust</i> CS-C: <i>Adjust</i>
<b>Guanxi relationship building vs. Western relationship building process</b>	<b>Flexible vs. progressive</b>	WB-C: <i>Understand</i> CS-C: <i>Understand</i>	WB-C <i>adjusts</i> to face and renqing. CS-C <i>adjusts</i> to step by step relationship building.	WB-C: <i>Adjust</i> CS-C: <i>Adjust</i>
	<b>Yin-yang principle vs. dualistic thinking</b>	WB-C: <i>Understand</i> CS-C: <i>Understand</i>	WB-C <i>adjusts</i> to Yin-yang principle. CS-C <i>understands</i> dualistic thinking.	WB-C: <i>Adjust</i> CS-C: <i>Understand</i>
	<b>Personal informal vs. corporate to corporate formal</b>	WB-C: <i>Understand</i> CS-C: <i>Understand</i>	WB-C <i>adjusts</i> to informal personal nature of GR. CS-C <i>understands</i> formal corporate to corporate nature of WR.	WB-C: <i>Adjust</i> CS-C: <i>Understand</i>
	<b>Long term vs. short term orientation</b>	WB-C: <i>Adjust</i> CS-C: <i>NA</i>	WB-C <i>adjusts</i> to long term orientation. CS-C does not adapt to short term orientation.	WB-C: <i>Adjust</i> CS-C: <i>NA</i>

**Table 7–10: Data display matrix of cultural adaptation process**  
(NA: no adaptation; WB-C: WB-C’s IAAs; CS-C: CS-C’s IAAs)

#### **7.3.4.2 Who Adapts?**

As for the question who are the people adapting to cultural behavioural differences between China and the West, the key informants of both parties claimed that they are the only individuals who adapted. The adaptation behaviours did not permeate into other parts of the company. For example, the Group Sourcing Director of WB-C stated that:

*“It is the small group of people (she named the IAAs of WB-C’s CST and mentioned herself) who are working with the CS-C closely, adapt to the Chinese culture. The rest of the company does not adapt.”*

The remaining informants (the Sourcing Engineer of WB-C headquarter, the Quality Engineer and the Logistics Engineer of CS-C) worked further away from the interface than the IAAs and did not understand most of the cultural behavioural differences at the time when the research was conducted in 2008 providing additional evidence supporting the argument that only those individuals at the interface interacting with each other frequently adapt culturally.

Case C’s IAAs claimed that they are the ones who adapted to each other culturally while others in their companies did not adapt, therefore P5b is supported.

#### **7.3.4.3 Trans-cultural**

There was no trans-cultural identified in this case. The Group Sourcing Director of WB-C’s headquarter has had the potential to develop into a trans-cultural because first she was willing to adapt; second she appreciated Chinese culture; third she is flexible; fourth she has been accepted by the Marketing Director as a personal friend. However she was still in the learning process toward a trans-cultural as observed by the author. One example is when she was asked about the adaptation to Yin-yang principle, she did not realize that they practiced it until she was interviewed indicating she personally ‘adjusted’ to Yin-yang principle (A4) at the time of the research conducted.

#### **7.4 Relationship between Cultural Adaptation and Mutual Benefits**

All the informants answered “yes” to the question: “Have the mutual benefits of the relationship grown due to cultural adaptation of both parties?” The key informants perceived most of the mutual benefits identified. Tables 7-11 and 7-12 below present quotes by key informants recorded during interviews.

Mutual benefits	quotes
Cost reduction benefits	<i>“The benefits sourcing from CS-C are that it is capable of developing new products for us and their prices are competitive.”</i> (Sourcing Director, WB-C CST)
Relationship effectiveness	<i>“We currently source five models of power supply from them. The R &amp; D projects lasted very long. Their organizational structure is different from us. It seems that there are many people related to one job but we don’t know clearly who is responsible. They don’t have the concept of project management. The projects are coordinated by the overseas marketing department of CS-C. There is no enough internal support to the projects in CS-C.”</i> (Senior Buyer, WB-C CST) <i>“Since the middle of the relationship, we have been satisfied with each other’s performance.”</i> (Group Sourcing Director, WB-C)
Flexible adaptation	<i>No data</i>
Collaboration	<i>“We shared information and collaborated with each other on the projects. We are more ready to get to know each other as an individual.”</i> (Group Sourcing Director, WB-C)
Trust	<i>“CS-C chose us based on the good relationship with our previous Sourcing Director. They agreed to work with us not because we purchase high volume of products from them, but they had good relationship with him and they want to work with him.”</i> (Group Sourcing Director, WB-C)
Guanxi quality	<i>“Our Group Sourcing Director has built Guanxi and personal relationship with the Marketing Director of CS-C. Our previous Sourcing Director of CST was a friend of the Marketing Director.”</i> (Senior Buyer, WB-C CST)

**Table 7–11: WB-C’s perception of mutual benefits**

As shown in table 7-11, the Sourcing Director of CST perceived the cost reduction benefits. The Group Sourcing Director of WB-C claimed that they were satisfied with CS-C’s performance, but the Senior Buyer pointed out the lack of internal support to the projects from within CS-C. The Group Sourcing Director claimed that CS-C’s IAAs collaborated with them and trusted the previous Sourcing Director of WB-C’s CST. The Senior Buyer stated that the Group Sourcing Director of WB-C and the Marketing Director of CS-C became personal friends. Flexible adaptation of CS-C was not identified by WB-C’s IAAs.

Mutual benefits	quotes
Cost reduction benefits	<i>No data</i>
Relationship effectiveness	<i>“We are very pleased to penetrate into the industrial power supply market. We encountered some technical issues and got over them. This improved our capability a great deal.”</i> (Marketing Director, CS-C)
Flexible adaptation	<i>“We also tell them our thoughts. For example, we complained to the Group Sourcing Director that they are too slow to give us business. Then they considered our demands and transfer some projects to us.”</i> (Marketing Director, CS-C)
Collaboration	<i>“The WB-C’s CST has been very helpful. They can’t justify their presence if they don’t develop good Chinese suppliers. So they help us improve and meet their requirements. We have to follow their step by step relationship building.”</i> (Marketing Director, CS-C)
Trust	<i>“We are in the commitment stage and trust each other. At the beginning, the relationship wasn’t smooth due to the difficulty of new projects and we feel that they did not trust our capability. They trusted our goodwill. We know they trust us and treat us as a core supplier now because they transfer projects from another supplier to us.”</i> (Marketing Executive, CS-C)
Guanxi quality	<i>“In the relationship with WB-C, I have played an important role. I have personal relationship with the previous Sourcing Director of CST.”</i> (Marketing Director, CS-C)

**Table 7–12: CS-C’s perception of mutual benefits**

Table 7-12 shows that the Marketing Director of CS-C was satisfied with effectiveness of the relationship, perceived the flexible adaptation of WB-C to a certain degree and felt that WB-C's IAAs helped and collaborated with them. The Marketing Executive perceived that they were trusted by WB-C's IAAs. The Marketing Director emphasized the important role that his personal relationship with the previous Sourcing Director of CST played. Cost reduction benefits were not identified by CS-C's IAAs.

A questionnaire of mutual benefits was designed to triangulate the qualitative data. All the six mutual benefits identified from literature were listed and the key informants were asked to identify in which stage of the relationship the mutual benefits were perceived. There are a number of statements/measurements relating to each mutual benefit. The key informants were asked to rate each statement on a scale from 1 to 5 whether they strongly agree (5) or strongly disagree (1).

Table 7-13 shows the mutual benefits perceived by each party in each stage of the relationship building process. At the exploration stage of the relationship, only cost reduction benefits were perceived by WB-C's IAAs and there was no mutual benefits perceived by CS-C's IAAs. At the expansion stage, more mutual benefits were perceived by both parties. At the commitment stage, the rest of the mutual benefits were perceived except for the Marketing Director of CS-C, who did not perceive any flexible adaptation from WB-C at all. However the findings indicate that increased items of mutual benefits were perceived by all the IAAs over time.

Relating table 7-13 to table 7-10, at the exploration stage, IAAs from both parties started "understanding" or "adjusting" indicating that they started adapting culturally, while there were either no mutual benefits or only cost reduction benefits perceived by the IAAs. At the expansion stage, the level of cultural adaptation increased from "understand" to "adjust" for most of the processes, while more mutual benefits were perceived by the IAAs. In the final commitment stage, the level of cultural adaptation stayed the same as that in the expansion stage while mutual benefits perceived still increased in terms of number of items. Cultural adaptation always preceded mutual benefits perceived indicating a probable causal relationship between them.

Table 7-14 shows that the average scores for all the items except for flexible adaptation of WB-C are close to four, indicating that IAAs tend to agree that they have obtained these mutual benefits from the relationship. The average score for flexible adaptation of WB-C rated by CS-C's IAAs is 3.12, which indicates that they tend to either agree or disagree with this benefit. All the IAAs perceived the quality of Guanxi as a familiar Guanxi.

Based on the analysis and evidence provided, P6, which is described as "*As a relationship develops toward the commitment stage, if the level of cultural adaptation increases, it is likely that perceived mutual benefits also increase.*", developed from case A, might be supported. This is the third case that supports P6. As Yin states that as more cases produce the same result, confidence grows as a result.

<b>Process \ IAAs</b>	Sourcing Director (WB-C)	Supplier Quality Engineer (SQE) (WB-C)	Senior Buyer (WB-C)	Marketing Executive (CS-C)	Marketing Director (CS-C)
Stage 1: Exploration	Cost reduction benefits	Cost reduction benefits	Cost reduction benefits	No Mutual Benefits	No Mutual Benefits
Stage 2: Expansion	Relationship effectiveness Collaboration Familiar Guanxi Flexible adaptation	Relationship effectiveness Collaboration Familiar Guanxi	Relationship effectiveness Collaboration Familiar Guanxi Trust	Cost reduction benefits Collaboration Familiar Guanxi Trust	Cost reduction benefits Collaboration Familiar Guanxi Trust
Stage 3: Commitment	Trust	Trust Flexible adaptation	Flexible adaptation	Relationship effectiveness Flexible adaptation	Relationship effectiveness

**Table 7–13: Perceived mutual benefits over time by key informants**

<b>Mutual benefits \ IAAs</b>		Cost reduction benefits	Relationship effectiveness	Flexible adaptation	Collaboration	Trust	Guanxi quality
WB	Sourcing Director	3.33	3.80	4	3.75	3.5	Familiar
	SQE	4.33	4.20	3.75	4.00	3.75	Familiar
	Senior Buyer	3.33	3.60	4	3.50	3.75	Familiar
	Average score	3.65	3.87	3.92	3.75	3.67	
CS	Marketing Executive	3.67	3.80	3.5	3.75	4.25	Familiar
	Marketing Director	3.33	3	2.75	3.50	3.50	Familiar
	Average score	3.50	3.40	3.12	3.63	3.88	
Overall Average		3.60	3.68	3.60	3.70	3.75	

**Table 7–14: Mutual benefits rated by key informants at the commitment stage**

CS-C's IAAs did not perceive any mutual benefits during the exploration stage, but WB-C's IAAs did perceive cost reduction benefits during exploration. WB-C chose CS-C not only because CS-C is capable of developing new products for them but also CS-C could provide a competitive price to its existing products; therefore reduce WB-C's cost. CS-C chose WB-C because they wanted to enter a new market and did not care too much about cost at the beginning; therefore it might explain why cost reduction benefits were not perceived by CS-C's IAAs at the exploration stage.

The Marketing Director of WB-C scored an average score of 2.75 on flexible adaptation (table 7-14) indicating that he slightly disagreed that CS-C was flexible. This may be because WB-C was slow to mass produce the new models of power supply. According to the Marketing Director, he was under pressure from CS-C's top management. Other key informants except for the Sourcing Director of CST perceived *flexible adaptation* very late (at the commitment stage) in the relationship indicating they were not very satisfied with CS-C in this aspect before commitment stage. CS-C's IAAs also perceived relationship effectiveness late in the relationship indicating they were not very satisfied with the effectiveness of WB-C before the commitment stage.

## 7.5 Chapter Summary

In this chapter, the propositions developed from case A are tested. P1, P3a, P4-6 are supported while P2, P3, 3b, c & d are partially supported. It is evident that the level of adaptation achieved in case C is generally lower than that determined in cases A and B. First this may be due in part to the fact that the previous Sourcing Director of WB-C's CST, who initiated and developed the relationship with CS-C, left WB-C was a loss to WB-C. The good personal relationship between the two individuals in key positions of the two firms i.e. the previous Sourcing Director of WB-C and Marketing Director of CS-C was also lost for WB-C and CS-C relationship. The new Sourcing Director had to re-build a new personal relationship with the Marketing Director and did not succeed yet. This also exemplified the power of personal relationships in building partnerships in a Chinese context.

Second, based on my observation, both the Marketing Director of CS-C and the Sourcing Director of WB-C's CST were inflexible and tended not to compromise on many occasions, therefore arguments arose between them. The Marketing Director has a technical background and focused on Guanxi, while the new Sourcing Director has got a Western mindset focusing on rules and procedures. Neither of these individuals has developed into an effective trans-cultural. The Group Sourcing Director has been keen to learn Chinese culture and had the potential to become a trans-cultural, however, because she is based in the UK the geographic distance and consequent infrequent interaction with Chinese makes this transition a slow process.

# **Chapter 8 : Case D Analysis**

## **8.1 Introduction**

The relationship between Western buyer D and Chinese supplier D is the final case to be analysed in this research. Access to this case was gained through a Cranfield alumnus who is employed by WB-D. He read the practitioner article “Watch your Guanxi” (Jia and Rutherford, 2008), which prompted him to offer the opportunity to include Western buyer D and one of their key suppliers Chinese supplier D in this research.

Access to the Chinese supplier D was at first difficult due to security reasons even with introductions provided by Western buyer D. Finally access was gained through another Cranfield alumnus who is an employee of Chinese supplier D and who happened to be studying at Cranfield University in 2008.

The structure of this chapter is the same as that of the previous case analysis chapters (chapters 5, 6 & 7).

## **8.2 Contextual Considerations**

### **8.2.1 Western Buyer D**

Western buyer D (WB-D) is North American Aerospace Corporation and a world leader in the design and manufacture of commercial aircraft. WB-D’s production sites are situated in North America, Europe and Asia and it has transferred 80% of a major aircraft structure to Chinese supplier D from its UK subsidiary and an Asian supplier. A few development projects were undertaken by the two parties. New business practices have been put in place to ensure the transfer. This includes supporting the transfer as if they were dealing with their own plant and the UK subsidiary takes the full responsibility to develop Chinese supplier D. An Interface Team selected from the UK subsidiary has been in China since 2005. Because WB-D UK takes full daily responsibility of managing the relationship, in the following, WB-D indicates WB-D’s subsidiary in the UK.

The interface team is based at the Chinese supplier D. They work at the same floor of a spacious office building as the project team specifically for project A in the Chinese supplier D. There are around 20 individuals staying in the interface team at any time and most of the interface team members are rotated except for a few, who have been staying from start including the Interface Team Leader, the Lead Buyer and the Quality Manager. The parts they source from the Chinese supplier D are high variety, high volume and high product complexity.

### **8.2.2 Chinese Supplier D**

Chinese Supplier D (CS-D) is a child company of a large state owned Aerospace Corporation in China. It designs and manufactures aviation products and provides aircraft maintenance services. It aims for a world leading supplier in commercial

aviation products. Since 1985, it has expanded into overseas aviation market, cooperating with the big names in the industry such as Boeing and Airbus. It has become the strategic supplier of these major players as well as WB-D.

CS-D employs 15,000 people located in a city of north China. CS-D started as military aircraft manufacturer and then entered into the commercial aircraft market in the 1980s. It is now diversified into automotive and a few other markets. However nowadays commercial aircraft market is the main focus of CS-D.

The interviewees of CS-D are all middle level managers including the Project Director for project A, the Quality Director and the Procurement Director. They report directly to the top management consisting of two Senior Vice Presidents and a President. The remaining departments include manufacturing and marketing. Due to its military background and high security in nature, access was limited to the three directors.

All the three directors have visited WB-D’s headquarter and UK subsidiary before. The Procurement Director has worked for CS-D in an overseas assignment for two years. Each one of them has served the company for more than 20 years.

### 8.2.3 WB-D and CS-D Relationship

#### 8.2.3.1 Background-the Relationship

The cooperation between WB-D’s and CS-D’s parent company dated back to 1990s when two other child companies of CS-D’s parent company supplied parts to WB-D’s parent company. The relationship between WB-D and CS-D began in early 2005 when WB-D began negotiations with CS-D with the aim of moving some production to a low cost country.

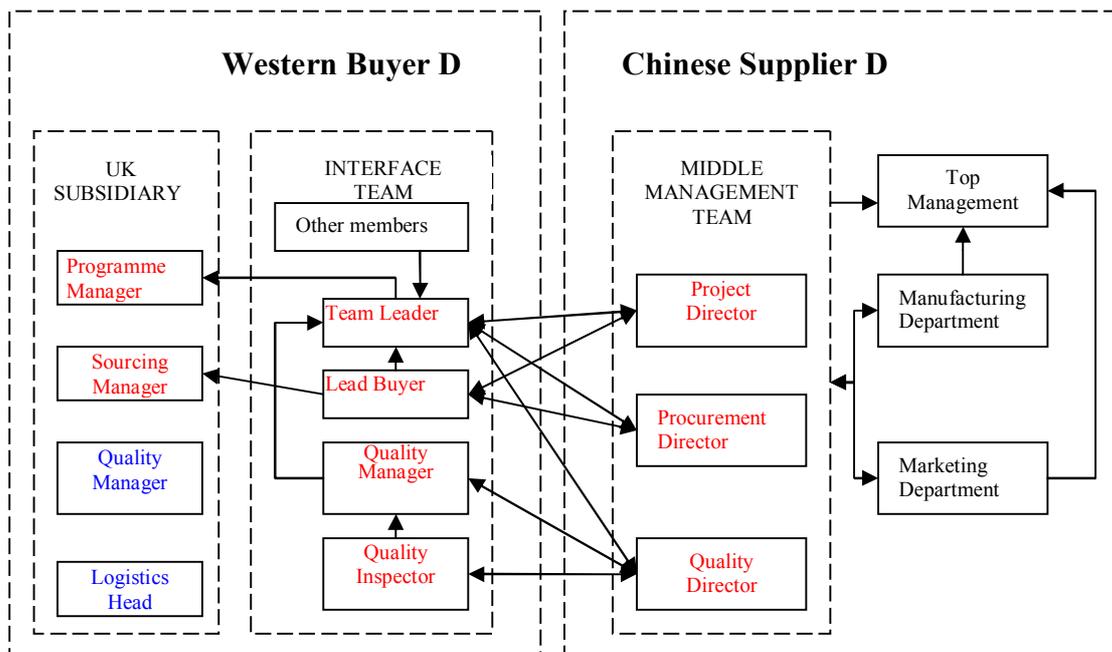


Figure 8-1: WB-D and CS-D interface

There are 11 interviewees highlighted in red and blue in figure 8-1. The key informants from CS-D are the Project Director, the Quality Director and the Procurement Director marked in red. The four key informants marked in red from WB-D's interface team are the Team Leader, the Quality Manager responsible for product quality, the Quality Inspector and the Lead Buyer. The remaining informants are based in the UK and include the Programme Manager for project A, the Logistics Head, the Quality Manager responsible for process quality and the Sourcing Manager, of which, the Programme Manager and the Sourcing Manager marked in red have been heavily involved and in frequent contact with CS-D through visits, emails and phone calls and as such are treated as key informants. The four individuals in the interface team were selected because they are the individuals serving the interface team the longest.

The Programme Manager of WB-D was responsible for the project A overall, who provided detailed background information about the project and relationship with CS-D. The interface team reports to him directly. Members of the interface team also report to their respective functional department heads. For example, the Lead Buyer also reports to the Sourcing Manager as well as the Interface Team Leader. The Interface Team Leader is responsible for the daily administration of the interface team and coordinating functional activities between CS-D and WB-D. He would go to the Vice President and even the President of CS-D if necessary.

The three directors of CS-D marked in red are at the same level of managerial role and are three key informants. The Project Director coordinates all functional activities of CS-D with WB-D and is an equivalent of WB-D's Programme Manager. The Procurement Director is responsible for all procurement and logistics activities of CS-D not only for project A. The Quality Director is responsible for all quality control issues in CS-D.

The Interface Team Leader of WB-D interacted frequently with all three directors of CS-D. The two quality staffs of the interface team mainly dealt with the Quality Director of CS-D. The Quality Inspector of WB-D mainly interacted with Quality Engineers of CS-D under the Quality Director. The Lead Buyer of WB-D interacted frequently with the Project Director and the Procurement Director of CS-D. So there were different levels of interactions between WB-D and CS-D.

### 8.2.3.2 Assessment of the Relationship against the Case Selection Criteria

As in previous case analysis chapters, the aim of this section is to establish that the dyad selected fits with the case selection criteria set in the methodology chapter.

Case selection criteria	WB-D and CS-D relationship
1. Western buyer has an IPO in China.	WB-D has an interface team based at CS-D.
2. Dyad is from manufacturing industry.	Yes, aerospace manufacturing industry
3. Western buyer has a subsidiary or headquarter in the UK or US, which deals with the Chinese supplier.	WB-D is headquartered in North America but has a UK subsidiary, which deals with CS-D.
4. Western buyers are selected from Large scale Western manufacturers.	WB-D is a Fortune 500 Aerospace manufacturer with 28, 000 employees worldwide.
5. Dyad is in the commitment/partnership stage.	Yes (details to follow)

**Table 8-1: Assessment of case selection criteria**

Table 8-1 above shows that: 1) WB-D has an interface team based at CS-D in north China; 2) this relationship exists in the aerospace manufacturing industry; 3) WB-D has a UK subsidiary that is responsible for managing the relationship with CS-D; 4) WB-D is a Fortune 500 Aerospace manufacturer with 28, 000 employees worldwide. The first four criteria clearly meet the case selection criteria. The following paragraphs serve to evaluate whether or not the fourth criterion has been met.

Again, the key informants were asked to rate the six statements of partnership and four characteristics of commitment. The results are shown in table 8-2.

<b>IAAs</b>	Quality Director (CS-D)	Sourcing Director (CS-D)	Project Director (CS-D)	Team Leader (WB-D)	Program Manager (WB-D)	Lead Buyer (WB-D)	Quality Manager (WB-D)	Quality Inspector (WB-D)
<b>Statements</b>								
Commitment in the relationship	5	4	4	4	5	3	5	4
Sharing of information	3	4	4	3	3	3	4	4
Sharing of risks and rewards	4	4	4	3	3	3	4	4
High level of interdependence	3	4	3	5	4	4	4	3
Compatible goals	3	5	4	3	4	5	3	5
Striving for mutual benefits	4	4	4	3	4	5	5	3
<b>Average score</b>	3.7	4.2	3.8	3.5	3.8	3.8	4.2	3.8

**Table 8-2: Average scores on 6 items of partnership rated by key informants**

Table 8-2 shows that both parties agree that their relationship is a partnership because the average scores by each key informant are close to 4 or above 4.

<b>Commitment characteristics</b>	<b>WB-D</b>	<b>CS-D</b>
Level of inputs	High. Dedicated interface team staying at CS-D	High. Dedicated project team and investment in infrastructure
Duration of the relationship	3 and more years	
Consistency of the input	The interface team has stayed from the beginning to the time when the research was conducted.	Continuously investing in the business with WB-D
Purposely engaged resources to maintain the relationship	Yes. The aim of WB-D was to maintain the relationship with CS-D as a strategic partnership.	Yes. WB-D is considered a key account bringing more and more business; therefore CS-D is keen to engage any available resources to maintain the relationship.

**Table 8–3: Commitment characteristics of WB-D and CS-D**

Since the project A involved the transfer of production for most of fuselage sections from an Asian manufacturer and WB-D to CS-D, both parties invested heavily in it. CS-D dedicated an interface team of 20 expatriates based at CS-D. Since most of the roles in the interface team are rotated, many individuals involved in the relationship based in the UK subsidiary have served in the interface team. CS-D also invested hugely in financial terms—infrastructure and personnel. The relationship between WB-D and CS-D has lasted for three and more years. From the beginning, both parties have been investing in the relationship continuously. The aim of WB-D was to maintain the relationship with CS-D as a strategic partnership to take advantage of the low cost of production. WB-D is one of the key accounts of CS-D and brings more and more business and technology; therefore CS-D is keen to engage any available resources to maintain the relationship. Based on the assessment of partnership and commitment characteristics, the fourth criterion is met.

### **8.3 Cultural Adaptation Process**

#### **8.3.1 Three-stage Relationship**

The relationship between WB-D and CS-D started in early 2005, when WB-D signed the contract with CS-D purchasing aircraft doors. At the beginning, the relationship was not so smooth because almost everything had to go through hierarchy and different functional departments of CS-D that was highly hierarchical and bureaucratic. It was also because the gaps between what WB-D required and the capacity CS-D had. WB-D facilitated CS-D running a gap analysis to identify the areas, where there were gaps and that needed to be improved for CS-D. A plan was then made for CS-D to address those gaps at the beginning of the relationship.

According to the Programme Manager of WB-D, there were four gaps identified by both parties. First CS-D's long term plan was too vague; second it did not have a practical mid-term and short term plan because they do not know what their capacity was; third even they had a plan, they did not implement it as scheduled; fourth their support system was very limited. As the Project Manager of WB-D stated:

*“[The author: They don't have long term plan?] To be fair, they do. They have plans to have new facilities but all like a dream, you know. They are like aspirations. We are in the West like making plan very detailed and operationalize the plan on time. They always say no problem no problem. We continuously helped them. It is like looking after your children (gap 1)...In fact they didn't have any concept of capacity. So we asked how many parts you can make in one week. They had no idea. They answered: our boss tells us to make 50, we make 50; our boss tells us to make 50, 000, we make 50,000 (gap 2). CS-D always said no problem; but eventually they did not do it or do it on time (gap 3)... They managed their inventory manually. They didn't have ERP or SAP to manage their inventory. The problem was that they tend to keep moving people about. You are continuously dealing with different people in two years. Their management team for Project A is the same as the project B. They are handling too many things in parallel (gap 4).”*

What WB-D did was to set up weekly and monthly review meetings with CS-D to identify problems and address them. WB-D did not blame on CS-D but repeatedly said to CS-D that if CS-D fails, they fail. WB-D's key informants claimed that they have been fully committed to the relationship.

The Programme Manager of WB-D stated the relationship evolving process with CS-D: *"The relationship started in 2005. We started as a partnership... We gave them the Rear (to manufacture) initially then we decided to give them the Front in 2006. We gave them 3 sets of details for the Rear. For Front, we end up giving them 24 sets of details, which come from us in the middle of 2007. Details mean parts. They started assembling it quite quickly."*

His view is echoed by the Procurement Director of CS-D:

*"We started the negotiation in early 2005. We carried out the project A in the middle of 2006. By the middle of 2007, they asked us to manufacture 80% of the fuselage of this project. At the beginning, the project faced difficulty because there were four parties involved: WB-D headquarters, WB-D, an Asian supplier and us. They tended to transfer the manufacturing from the Asian supplier and WB-D to us. Now the relationship is much better. We have much better communication and have fewer problems."*

The CS-D's parent company signed a memorandum of understanding (MOU) with WB-D's parent company that will further develop the relationship into strategic long term cooperation through developing a new aircraft project-project B in June 2007. WB-D intended to invest \$100 million and will provide the technical assistance toward the development of the new project B. Furthermore, in pursuit of its goal to become a major international Tier 1 structural supplier, CS-D's parent company planed to invest \$400 million USD for research and development, construction of new facilities and new equipments for the new project B aircraft.

The MOU, subject to the execution of definitive agreements, is a natural extension of the well-established relationship between CS-D and WB-D's parent companies and states that CS-D supplies components for the project A aircraft and will be a structural supplier on the project B aircraft. The MOU symbolizes that their relationship has entered into a commitment stage.

Based on the evidence, it is clear that the time scale for the relationship between WB-D and CS-D can be divided as follows:

1. Exploration stage: Early 2005 to middle of 2006
2. Expansion stage: middle 2006 to middle 2007
3. Commitment Stage: late 2007 onwards

In the exploration stage, both parties negotiated and prepared for the project A. After the contract was signed in the middle of 2006, mass production began i.e. their business expanded. Since the middle of 2007, the manufacturing transfer from the UK subsidiary and an Asian supplier has been completed. At the same time, a MOU supporting long

term strategic cooperation was signed by both parties indicating that the relationship has developed into a partnership and hence currently exists in the commitment stage.

### **8.3.2 Adaptation to the Cultural Behavioural Differences**

#### **8.3.2.1 Adaptation to Family Orientation vs. Self Interest**

In table 8-4, the Sourcing Manager of WB-D claimed that WB-D's IAAs 'understood' this difference at the beginning of the relationship by presenting an example of different decision making styles i.e. collective for CS-D vs. individualistic for WB-D. The collective decision making style can be seen as a form of family orientation because the decisions are made by the company (family) not by individuals. The individualistic decision making style is related to self interest because the power of decision making is attributed to individuals; therefore the awards and benefits related to the power such as bonus and status are also attributed to individuals, which tend to support individual interests. This evidence suggests that WB-D's IAAs acknowledged this difference (U3) and showed their understanding of this difference (U2) at the exploration stage of the relationship.

It seems that WB-D's IAAs have adapted to CS-D's style of working, for example according to the Lead Buyer, employees have been working overtime since 2006 in order to finish work on time whenever there is a tight schedule. The Interface Team Leader and the Quality Manager did not agree with CS-D's working style although they had to adapt at the time of the research conducted. To them, when scheduling, the holidays should not be counted as working days, which CS-D would often do. The Quality Manager of WB-D's interface team stated that:

*"It is true. Individually they work toward company goals. They do work overtime, which sometimes contributes toward good performance. The issue is if you are going to be here, make it productive. Sometimes they don't work productively. They are being here just for being here. They need to measure their performance when they are there."*

CS-D's IAAs corroborated with the Lead Buyer's view that the interface team's IAAs have adapted to the family orientation i.e. working overtime if needed. The evidence shows that WB-D's IAAs adopted family orientation behaviours consistent with Chinese culture reactively because WB-D's IAAs did not agree with this working style and used the phrase 'influenced by CS-D' (A1); therefore they 'adjusted' to this at the expansion and commitment stages.

As for CS-D, the Project Director of CS-D claimed that CS-D's IAAs understood this difference at the beginning of the relationship by giving an example of different levels of devotion to the company between Chinese and the Westerners showing his understanding of and acknowledging this difference (U2 & 3). Therefore it might be concluded that CS-D's IAAs achieved a level of 'understanding' at the exploration stage of the relationship.

The Sourcing Manager and the Lead Buyer of WB-D claimed that CS-D's IAAs adapted to the style of individual decision making rather than making a decision

collectively every time in the middle of the relationship, when the relationship was at the expansion stage. In CS-D, the decision was normally made collectively or by the top management. Subordinates are neither expected nor willing to take responsibility of the decisions made; therefore it ends up with no one is responsible for some issues if the top management does not have time. This is named as the cloudy reporting by the Purchasing Director of WB-B in case B, meaning that there is no clear job responsibility and clear line of reporting. CS-D's IAAs had to adapt in a way that individuals can take their responsibilities.

According to the Procurement Director and the Quality Director, CS-D's IAAs were also influenced by WB-D by respecting personal rights and trying not to count holidays into working days too often for every project at the time of the research conducted. The evidence shows that CS-D's IAAs adopted the self interest behaviours consistent with Western culture reactively because they still preferred the collective decision making and sometimes asked WB-D's employees to work over time (A1). Therefore they 'adjusted' to self interest at the expansion and commitment stages.

Since both parties adjusted to each other in this aspect as the relationship evolved toward the commitment stage, P1 is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
Western Buyer D	<p><i>“This is related to the decision making. We tend to make the decisions at an individual level whereas for CS-D, they make decision based on collective group. I just found it is difficult for an individual to come out to be responsible for anything in CS-D. We could feel this at the beginning of the relationship”</i> (Sourcing Manager, WB-D)</p> <p>(Understand: indicators U2 and U3)</p>	<p><i>“I can see from CS-D’s point of view that they put group interest ahead of their self interests. They tend to say they work for the company and the company is everything. Since we work at CS-D, we were influenced by them and tend to sacrifice our personal interest for the company such as working overtime. We adapted to this in about 2006.”</i> (Lead Buyer, WB-D’s interface team)</p> <p><i>“I think CS-D adapted to our thinking. Someone has to be responsible for...It (adaptation) started toward the middle of the relationship.”</i> (Sourcing Manager, WB-D)</p> <p>(Adjust: indicator A1)</p>	<p><i>“Recently they are very concerned about schedule so they worked very hard. We feel it is very strange because they just do what they are told. You must do things according to schedule. If needed, you can change the schedule. They worked overtime a lot recently. From their point of view, we are their customers, they should concern about our level of satisfaction but they seem to concern about their senior management’s. Their senior management is more Westernized. CS-D needs to adapt to the customer focused mindset. When they do the scheduling, they count weekends as working days. They said they can work everyday. I said no no, because people need holidays and those holidays are contingency.”</i> (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>
Chinese Supplier D	<p><i>“Western people are not like us. They don’t normally devote their full efforts to the company. We Chinese especially people in Aerospace industry have the spirit of devotion. We devote ourselves to the company and the country. For example, we could work day in and day out continuously for months to finish a project. During that period, we don’t normally go home at all and we stay at the temporary factory dormitory overnights. Westerners can’t do that. We could understand this at the beginning of the relationship because we worked with Western companies before WB-D.”</i> (Project Director, CS-D)</p> <p>(Understand: indicators U2 &amp; 3)</p>	<p><i>“WB-D as a whole is like this (self interest), but the interface team has changed a great deal. They, as a customer of us, have achieved far more than we expected. They have put a lot of efforts in the relationship. If there is something urgent, they will work over time like us. We worked toward the same goal, satisfying our common customers...They adapted about a year after the relationship started. It is useless for us to work overtime alone if WB-D people don’t do the same, because a lot of things require cooperation. We can’t require WB-D people to work like us; therefore we need to respect their personal rights to take holidays. Our employees also need some holidays.”</i> (Procurement Director, CS-D)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We used to work overtime to finish jobs assigned to us. However since we work with WB-D, we consider the individual employee’s interest. For example, when we make plan now, we don’t often count the weekends and holidays into working days like before even for urgent projects. WB-D has adapted to us such as working over time to finish the work. They have adapted to our working environment.”</i> (Quality Director, CS-D)</p> <p>(Adjust: indicator A1)</p>

**Table 8–4: Adaptation to Family Orientation vs. Self Interest**

### 8.3.2.2 Adaptation to Guanxi Network vs. Multiple Institutions

As shown in table 8-5, the Quality Manager of WB-D's interface team showed his understanding of Guanxi network (U2) and claimed that although WB-D's IAAs had some problems of understanding this difference initially, they eventually understood it at the beginning of the relationship. The key informants of WB-D were briefed on Chinese culture before their departure to China; therefore they understood some Chinese culture before they came. Hence it might be concluded that WB-D's IAAs 'understood' this difference at the exploration stage of the relationship.

The Interface Team Leader of WB-D claimed that they were frustrated when they could not get things done at the beginning; they then backed off and approached the top management for support showing their adaptation to the hierarchical nature of Guanxi network. He claimed that they adapted in 2006. The fact that he lost temper several times in the middle of the relationship might indicate that he adopted the behaviour of keeping harmony within hierarchy consistent with Chinese culture reactively (A1).

The Lead Buyer also stated that they kept harmonious relationship with CS-D individuals by holding some side meetings to sort out the arguments at the time of the research conducted showing that they adapted by keeping harmonious relationship with CS-D's IAAs.

However some WB-D's interface team IAAs including the Programme Manager, the Interface Team Leader and the Lead Buyer repeatedly said "the relationship is frustrating" indicating that they adopted Guanxi network behaviours of Chinese culture reactively at the time of the research conducted. This is shown by the words made by the Interface Team Leader:

*"WB-D in the UK thinks we have adapted to Guanxi network completely and we work for CS-D not for WB-D (he laughed). But we were told to be sympathetic to other's views. Yes, we have adapted. WB-D does not like it. Before we adapted, our normal behaviour wasn't succeeding."*

Therefore it might be concluded that WB-D's IAAs 'adjusted' to Guanxi network featured by harmony within hierarchy at the expansion and commitment stages.

The Project Director of CS-D acknowledged this difference (U3) and claimed that CS-D's IAAs 'understood' it at the beginning of the relationship.

The Procurement Director of CS-D claimed that CS-D's IAAs adapted by recruiting many young and well educated employees and started adapting to Western rules and procedures since early 2007, when the relationship was at the expansion stage. The CS-D new recruits are generally young, therefore are said to be easier than the existing employees to learn WB-D's procedures and rules. All CS-D's IAAs claimed that they had to adapt to WB-D's rules and procedures at the time of the research conducted. The Quality Director of CS-D admitted that they need to build a culture of following procedures and rules, which has not formed so far.

WB-D paid a great deal of attention to quality. The WB-D's interface team consists of more people from quality department than those from other functional departments. The reason why WB-D's IAAs felt frustrating was because they were not very satisfied with CS-D's quality performance. WB-D's IAAs also agreed that although CS-D has been continuously improving toward the procedures and rules, the process was hindered by CS-D's organizational culture, in which CS-D individuals have paid much more attention to Guanxi than follow WB-D's rules and procedures closely. The Quality Manager of WB-D's interface team stated that CS-D was pushed by them to follow the rules and procedures. The Programme Manager of WB-D also stated that CS-D still had problem following WB-D's rules and procedures at the time of the research conducted:

*“We gave them the Rear (to manufacture) initially then we decided to give them the Front in 2006. We gave them the 3 sets of details for the Rear. For Front, we end up giving them 24 sets of details, which come from WB-D. Details mean parts. They started assembling it quite quickly. So they did pretty well on the Front. The problem came from the Rear and Tail plane. They had to buy their own assemble tools and the parts. We are still undergoing the problems today. They make parts of Rear and Tail plane too slowly. We have long term plan for 3 or 4 months but they only have a short term horizon.”*

The evidence indicates that CS-D's IAAs adopted the behaviours of following rules and procedures closely consistent with Western culture reactively (A1); therefore they 'adjusted' to it at the expansion and commitment stages.

Because both parties only adjusted to each in this aspect as the relationship evolved toward the commitment stage, while P2 states that Chinese supplier IAAs adjust to Western rules and procedures and Western buyer IAAs learn Guanxi network, therefore P2 is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer D</b>	<p><i>“We need to go through the right channels. We need to deal with the decision makers i.e. senior management to get things done. There is a clear hierarchy in CS-D. At the beginning, we had some slight problems but now I think we have adapted quite well. We understood this difference soon after we started the relationship”</i> (Quality Manager, WB-D’s interface team)</p> <p>(Understand: indicator U2)</p>	<p><i>“We find it was frustrating before we adapted. Our normal behaviour wasn’t succeeding. I lost my temper several times because I can’t get things done after the early stage of the relationship. It was so frustrating. So I just had to back off and did differently by approaching CS-D’s top management. We adapted one year after the relationship started.”</i> (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>	<p><i>“That is the frustration, Jeff. One of the problems is that the decision is made by the boss. When we asked for assistance, they normally say “no problem” but eventually they didn’t do anything because we did not ask the boss... There is no confrontation between CS-D and WB-D. As I mentioned before, before the main meeting, there were a lot of side or private meetings between the two bosses to sort the problem out. There has been no aggressive act.”</i>(Lead Buyer, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier D</b>	<p><i>“We pay attention to Guanxi. Western firms pay more attention to procedures. At the beginning of the relationship, we attempted to understand WB-D’s procedures and rules. We could understand this difference at the beginning of the relationship.”</i> (Project Director, CS-D)</p> <p>(Understand: indicator U3)</p>	<p><i>“We emphasize the procedures and rules due to the industry we are in. We had to adapt to WB-D’s requirements and procedures. We recruited a lot of new people for the project with WB-D, who need to be trained on the procedures. We started adapting to this since in 2007.”</i> (Procurement Director, CS-D)</p> <p><i>“As for CS-D, they have to change to the Western way in this aspect. I don’t think it is easy for them to do it. They recruited a lot of well educated young people for this. They have been pushed by us to learn different way from their traditional way of doing business.”</i> (Quality Manager, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We must follow their requirements. We were not so good at it, because we did not follow procedures closely. Now we train our employees on the procedures and cultivate the culture to follow the procedures closely.”</i> (Quality Director, CS-D)</p> <p><i>“In practice, they work on their own system. The senior management and some medium level management of CS-D have adapted to our procedures and rules to some degree. It depends on where they have worked before. For example, the Procurement Manager has worked in America for some time, therefore has adapted to Western thinking well.”</i> (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>

**Table 8–5: Adaptation to Guanxi Network vs. Multiple Institutions**

### 8.3.2.3 Adaptation to Guanxi Relationship Building vs. Western Relationship Building Process

There are four cultural behavioural differences that define the root difference of Guanxi relationship building (GR) vs. Western relationship building process (WR).

1. Flexible nature of GR featured by the interplay of *face* and *renqing* vs. progressive nature of WR
2. Yin-yang principle of GR vs. dualistic thinking of WR
3. Personal informal nature of GR vs. corporate to corporate formal nature of WR
4. Long term orientation of GR vs. short term orientation of WR

#### 8.3.2.3.1 Adaptation to Flexible Nature of GR vs. Progressive Nature of WR

In table 8-6, the Lead Buyer of WB-D claimed that he strongly agreed with the statement of this difference and WB-D's IAAs understood this difference at the beginning of the relationship (U3). That they have achieved a level of understanding of this difference at the beginning of the relationship may be due in part to the fact that they were briefed on Chinese culture before their departure to China. It might be concluded that WB-D's IAAs 'understood' this difference at the exploration stage of the relationship.

The Interface Team Leader of WB-D claimed that they adapted to face and renqing one year after the project started, when the relationship was at the expansion stage. The Quality Manager of WB-D's interface team corroborated with what the Interface Team Leader said. He stated:

*"CS-D has to adapt to the procedures from a control point of view, whereas from social point of view, we have to adapt to CS-D. If you go to Rome, do it in a Roman way. If you go to China, do it in a Chinese way. I think actually a dozen of people from UK can't change Chinese culture."*

The Sourcing Manager of WB-D also stated that they adapted by keeping in mind of saving Chinese face and offering help for the exchange of cooperation, an example of exchange of renqing at the time of the research conducted.

However, as the Lead Buyer stated that they were in the early steps of Guanxi building process indicating that they have not 'learnt' this aspect of GR yet at the time of the research conducted. Also according to the responses of the Interface Team Leader of WB-D, he was in a dilemma whether they should adapt or not at the time of the research conducted and stated that:

*"WB-D thinks we have adapted to Guanxi network completely and we work for CS-D not for WB-D (he laughed). But we were told to be sympathetic to other's views. Yes, we have adapted. WB-D does not like it. Before we adapted, our normal behaviour wasn't succeeding."*

The evidence suggests that WB-D's IAAs adopted the 'saving face' and 'exchange of renqing' with CS-D's IAAs consistent with Chinese culture reactively (A1), because

their adaptation behaviours were hindered by WB-D in the UK and they were in the early stage of Guanxi building process. WB-D's adaptation was corroborated by CS-D's IAAs. Therefore it may be concluded that WB-D's IAAs 'adjusted' to flexible nature of GR featured by face and renqing at the expansion and commitment stages.

The Procurement Director of CS-D claimed that CS-D's IAAs gradually achieved a level of understanding of WB-D's relationship building procedures six months after the relationship with WB-D started when the relationship was at the exploration stage. This difference was also acknowledged by him (U3).

All CS-D's IAAs claimed that they had to adapt to WB-D's step by step relationship building, which was also echoed by WB-D's IAAs, because WB-D is one of their key accounts at the time of the research conducted. The Project Director claimed that they adapted in 2007. This suggests that CS-D's IAAs adopted the behaviours of step by step relationship building consistent with Western culture reactively (A1). According to the Interface Team Leader of WB-D, the fact that there were occasionally some arguments between WB-D and CS-D's IAAs may suggest that CS-D's IAAs shifted their behaviours more appropriate to Western culture temporarily; however they may feel uncomfortable interacting with the other party at the time of the research conducted (A2). Therefore it might be concluded that CS-D's IAAs 'adjusted' to the step by step relationship building process at the expansion and commitment stages.

Because both parties adjusted to each other in this aspect, which is aligned with the statement of P3a, therefore P3a is supported.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer D</b>	<p><i>“I do strongly agree with this difference. Try to build relationship with your counterpart. Build some confidence and some favours that you can use in the future. We have to adapt. Yes. I think from learning point of view, if you don’t adapt, nothing will be done. You have to have good relationship, not necessarily Guanxi but small version of it, the first steps of Guanxi. You try to do one step a time and build up the relationship. We are now at the early steps of Guanxi building process. We understood this soon after the relationship started.”</i> (Lead Buyer, WB-D’s interface team)</p> <p>(Understand: indicator U3)</p>	<p><i>“I think one of the reasons why WB-D’s parent company gave this job to us is we are the most adaptable. We adapted to this quite well. After the initial stage, we recognized that we need to respect Chinese face and renqing. We did it when we interacted with CS-D employees. [The author: When did you adapt?] When did I cross to the dark side (He laughed)? I think it is a gradual process. It was probably about one year after the project started. CS-D had to follow our procedures to build relationship at the beginning. But it is also a gradual process.”</i> (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>	<p><i>“We both adapted. As I said earlier, we WB-D recognize the importance of the relationship and then adapted to the favour exchange and face. We keep the idea of saving face in mind, don’t confront CS-D employees, and offer them help for exchange of their cooperation. (The Author: When did you adapt?) We have adapted to this in the middle of the relationship.”</i> (Sourcing Manager, WB-D)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier D</b>	<p><i>“They are our customer and we have to adapt to their step by step relationship building process. We did not understand why we need to do this and do that at the beginning of the relationship and gradually we understood that was their relationship building procedures. That was about six months after the relationship started. They also had to adapt to face and renqing. Some of the individuals of the WB-D’s interface team appreciate Chinese culture and adapt to it. They enjoy the time spent in China. These are the people who voluntarily adapt to Chinese culture. Some don’t like Chinese culture so much and therefore adapt less. They are involuntarily to adapt.”</i> (Procurement Director, CS-D)</p> <p>(Understand: indicator U3)</p>	<p><i>“Most of the time, they are considerate and save our faces. But they separate personal relationship with corporate businesses. When dealing with corporate businesses, they follow their procedures. They have a set of step by step relationship building procedures, to which we had to adapt. We adapted in last year (2007).”</i> (Project Director, CS-D)</p> <p>(Adjust: indicator A1)</p>	<p><i>“As for the relationship building process, we adapted to WB-D. Although we had some arguments; we still keep cooperating with each other. If this happened between Chinese, it is difficult to keep the relationship going. But thereafter they adapted to our faces and renqing. They pay attention to saving our faces and exchanging renqing.”</i> (Quality Director, CS-D)</p> <p>(Adjust: indicator A1)</p>

**Table 8–6: Adaptation to flexible nature of GR vs. progressive nature of WR**

### 8.3.2.3.2 Adaptation to Yin-yang Principle of GR vs. Dualistic Thinking of WR

Table 8-7 shows that the Quality Manager of WB-D's interface team showed his understanding of and acknowledged this difference (U2 & 3), and claimed that WB-D's interface team IAAs understood this at the beginning of the relationship. It might be concluded that they achieved a level of understanding of this difference at the exploration stage.

The Interface Team Leader of WB-D stated that WB-D's IAAs changed their behaviours from asking CS-D individuals to do everything in one time, which can be considered as 'push' to breaking down the big tasks into small ones, which can be considered 'pull', because their original behaviours did not succeed. However the Interface Team Leader claimed that they had to adapt and the adaptation took place in the middle of the relationship indicating that WB-D's IAAs adopted behaviours based on Yin-yang principle consistent with Chinese culture reactively (A1).

The Lead Buyer of WB-D corroborated with the Interface Team Leader's view stating that there has to be a giver (push) and a taker (pull) and when CS-D's IAAs pushed, they pulled at the time of the research conducted. He did not recognize that they applied the Yin-yang principle until he was briefed during the interview. This is in line with the indicator of using knowledge of opposite culture without realising it (A4).

This was consistent with what I observed. I attended a number of meetings between both parties and never saw any tension between the interface team and the CS-D individuals. The atmosphere was very relaxed. When there were some issues raised in the meeting, it was not presented in a very aggressive way but in a constructive one.

This was also echoed by CS-D's IAAs, who praised WB-D's IAAs for their significant improvement in adapting to Yin-yang principle. However the fact that their expectation of Westerners adapting to this is not high should be taken into consideration. Therefore it could be concluded that WB-D's interface team IAAs 'adjusted' to Yin-yang principle at the expansion and commitment stages.

The Quality Director of CS-D showed his understanding of this difference (U2) and claimed that CS-D's IAAs understood it at the beginning of the relationship. CS-D's IAAs claimed that WB-D's IAAs adapted to the Yin-yang principle implying that they did not adapt to the Western dualistic thinking but acknowledged the difference (U3) at the time of the research conducted because according to their tone, they stress 'us' and imply that they did not adapt to Western dualistic thinking (refer to the quotes by the procurement Director and the Project Director). Therefore CS-D's IAAs 'understood' this difference from exploration to commitment stage.

Because WB-D's IAAs adjusted to Yin-yang principle and CS-D's IAAs understood this difference as the relationship evolved toward the commitment stage, while P3b states that Western buyer IAAs learn Yin-yang principle and Chinese supplier IAAs understand the difference, therefore P3b is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer D</b>	<p><i>“Yeah, yeah. We will slump the door in the West. The Chinese way is different. We were frustrated when they did not do things quickly enough. They were also frustrated because we asked them to do it too quickly. This is the major friction between us. We tend not to push too hard at the individual level but we pushed hard at the organizational level. We have been pushed by WB-D as well. I always say CS-D needs to do this and I never say an individual’s name. When I push, I do consider the feeling of CS-D individuals. We did not understand this until several months after the relationship started.”</i> (Quality Manager, WB-D’s interface team)</p> <p>(Understand: indicators U2 and U3)</p>	<p><i>“Yes, yes. This is the problem of information availability. We agreed that something was going to be ready on Monday but it turned out not to be ready on Monday. No one told us it would take longer. They always say everything is ok. Actually it was not. We had to adapt to this. Now we ask very specific questions instead of general ones to make sure things they promised to do are done... It took us some time to adapt. I think it was toward the middle of the relationship.”</i> (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>	<p><i>“I did not recognize until I saw the questionnaire. I can recognize the “push” and “pull”. There has to be a giver and a taker. There has to be a solution to it. I think sometimes CS-D pushed and we pulled back. I think we adapted and have seen a bigger picture, which is we need CS-D to manufacture these aircraft components. Ok, we will assist you in this stage and we need to achieve a common goal here. I think there were issues that I resolve. When they face problem and push us, we take them and help resolve them.”</i> (Lead Buyer, WB-D’s interface team)</p> <p>(Adjust: indicator A4)</p>
<b>Chinese Supplier D</b>	<p><i>“Westerners are straightforward. We are not. Sometimes we don’t express our opinions directly because that way, somebody may lose face. We don’t want to offend anyone. This is related to the fact that Chinese emphasize harmony and saving face. We understood this at the beginning of the relationship but don’t adapt to them.”</i> (Quality Director, CS-D)</p> <p>(Understand: indicators U2 and U3)</p>	<p><i>“They adapted to us. We have monthly project review meetings. The way they spoke and their attitude toward us have changed dramatically. They were considerate to our feelings. This is different from what I saw in the UK. There was much more tension when they held the meeting between themselves than when they held meetings with us... they adapted one year after the relationship started.”</i> (Procurement Director, CS-D)</p> <p>(Understand: indicator U3)</p>	<p><i>“They adapted to us. They don’t go to the extreme in terms of the way they speak to us. We all cherish the relationship between us. There is little tension between us. We all handle problems peacefully.”</i> (Project Director, CS-D)</p> <p>(Understand: indicator U3)</p>

**Table 8–7: Adaptation to Yin-yang principle of GR vs. dualistic thinking of WR**

### **8.3.2.3.3 Adaptation to Personal Informal Nature of GR vs. Corporate to Corporate Formal Nature of WR**

As shown in table 8-8, the Lead Buyer showed his understanding of this difference, acknowledged and accepted this difference and claimed that WB-D's IAAs 'understood this at the beginning of the relationship (U2 & 3). It might be concluded that they 'understood' this difference at the exploration stage.

The Interface Team Leader of WB-D admitted that WB-D's IAAs made personal friends with CS-D's IAAs but CS-D's IAAs invited them for dinner too often. They see this a responsibility indicating that WB-D's IAAs temporarily shift behaviour more appropriate to Chinese culture, however they feel uncomfortable doing too much of this (A2). According to IAAs of both parties, WB-D's interface team and CS-D's IAAs built personal relationships with each other. They often had dinners, played football & basketball and participated in other amusement activities together after work. The Interface Team Leader also claimed that they adapted at the same time as last one (adaptation to Yin-yang principle); therefore WB-D's IAAs 'adjusted' to personal informal nature of GR at the expansion stage.

The Quality Inspector and the Lead Buyer of WB-D's interface team claimed that they have adapted by keeping informal relationship and making friends with CS-D individuals. However the Lead Buyer claimed that they had to adapt at the time the research conducted indicating that they adopt the behaviours of making personal and informal relationship consistent with Chinese culture reactively (A1). Therefore WB-D's IAAs 'adjusted' to personal informal nature of Guanxi relationship building process at the commitment stages.

CS-D's IAAs claimed that they accept the difference but do not adapt to the behaviour of building corporate to corporate and formal relationship of WR at the time of the research conducted (U3). The Quality Director of CS-D claimed that they understood this at the beginning of the relationship. Therefore CS-D's IAAs 'understood' this difference from exploration to commitment stage.

Because WB-D's IAAs 'adjusted' to personal informal nature of GR and CS-D's IAAs 'understood' the difference as the relationship evolved toward the commitment stage, while P3c states that Western buyer IAAs learn personal informal nature of GR and Chinese supplier IAAs understand corporate to corporate and informal nature of WR, therefore P3c is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer D</b>	<p>“Yeah, the relationship with CS-D people is very informal and we have been very friendly but in the West, it is more to do with more formal corporate to corporate relationships. We understood this at the beginning of the relationship.” (Lead Buyer, WB-D’s interface team)</p> <p>(Understand: indicator U3)</p>	<p>“We made friends with individuals of CS-D. One of the things CS-D is very keen to do is they often invite us for dinner, which is part of the Guanxi building process. We spent a lot of time on this. We really need to do something else. The problem is this kind of things is too often. Actually we see attending the dinner is part of our job. We adapted probably at the same time as last one (expansion stage).” (Team Leader, WB-D’s interface team)</p> <p>(Adjust: indicator A2)</p>	<p>“We all make friends here (with CS-D employees). Both the Team Leader and the Quality Manager have apparently adapted. The relationship between employees of the two companies has been informal and we intentionally keep this informal relationship because it helps us collaborate better.” (Quality Inspector, WB-D’s interface team)</p> <p>“As I said earlier, I think we have adapted to CS-D more because we work at CS-D in China. We have to respect the local rules, in this case making relationship more informal and personal. If you want to move things forward at CS-D, you have to respect and adapt to their culture.” (Lead Buyer, WB-D’s interface team)</p> <p>(Adjust: indicator A1)</p>
<b>Chinese Supplier D</b>	<p>“Good personal relationship helps the communication between two parties. Individuals from both parties build personal relationship, hence WB-D has adapted to CS-D from building formal corporate level relationship to building informal personal relationship. We understood this difference at the beginning of the relationship but don’t normally build corporate to corporate relationship with them.” (Quality Director, CS-D)</p> <p>(Understand: indicator U3)</p>	<p>“Individuals of both parties have very good personal relationships. This can’t be mixed with corporate to corporate relationship, which WB-D intended to build initially. For example, I have good personal relationship with the Lead Buyer. Therefore they have adapted to us.” (Procurement Director, CS-D)</p> <p>(Understand: indicator U3)</p>	<p>(Understand)</p>

**Table 8–8: Adaptation to personal informal nature of GR vs. corporate to corporate formal nature of WR**

#### **8.3.2.3.4 Adaptation to Long Term Orientation of GR vs. Short Term Orientation of WR**

The Sourcing Manager of WB-D claimed that WB-D's IAAs understood this difference at the beginning of the relationship. The Lead Buyer and the Quality Inspector of WB-D acknowledged this difference (U3). Therefore it might be concluded that they 'understood' this difference at the exploration stage of the relationship.

The Lead Buyer of WB-D claimed that they had to adapt to the long term orientation in the middle of the relationship because building Guanxi with Chinese is a long term process. The Quality Inspector claimed that building long term personal Guanxi is a key to succeed in China; therefore they have to adapt to it at the time of the research conducted.

At the corporate level, both parties signed the MOU aiming for a long term strategic cooperation. In the West, companies tend to be long term orientated nowadays but it is happening mainly at the organizational level. The motivation behind the long term orientation in the West is based on economic principle meaning that collaboration and strategic partnership bring economic benefits to both parties. As the Sourcing Manager stated that Western manufacturers can not compete with China or India on price and they need to develop themselves into an integrator, which required them to be long term orientated. In China, long term orientation is a tradition. Long term orientation between organizations is intertwined with the long term orientation between key individuals of both parties.

The evidence suggests that WB-D's IAAs except for the Lead Buyer and the Quality Inspector did not fully understand that business and individual relationships are intertwined in China and therefore adopted the behaviour of building personal long term relationship consistent with Chinese culture reactively (A1); therefore they 'adjusted' to the long term orientation of GR at the expansion and commitment stages.

The Project Director of CS-D took for granted that Western firms are like them i.e. long term orientated indicating that they think they behave in a natural way and different ways are wrong and misguided (NA1). The Procurement Director considers that as for this difference, as different as people are, they are still more similar than dissimilar (NA2). Both indicate that CS-D's IAAs do not understand and adapt to short term orientation from beginning to the time when the research was conducted.

Because WB-D's IAAs adjusted to the long term orientation and CS-D's IAAs did not adapt to short term orientation while the relationship evolved toward the commitment stage, while P3d states that Western buyer IAAs learn long term orientation and Chinese supplier IAAs do not adapt to short term orientation, therefore P3d is partially rejected.

Proposition 3 is a summary of propositions 3a-3d. Since propositions 3b-d are partially rejected, P3 is partially rejected.

Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Western Buyer D</b>	<p><i>“We are developing long term relationship with CS-D. 5 years ago, we were short term orientated. We are not a manufacturer because we can’t compete with China or India on price. We are integrator. In order to be an integrator, you need to have a long term view. We understood this at the beginning of the relationship.”</i> (Sourcing Manager, WB-D)</p> <p>(Understand: indicator U3)</p>	<p><i>“Chinese tend to be long term orientated than we do. Yeah, we adapted. Guanxi can’t be successful in a short period of time. You have to build up Guanxi step by step and one small step a time. There is no quick solution...It was a learning process. You have to learn their culture and their work ethics. We probably adapted in the middle of the relationship.”</i> (Lead Buyer, WB-D’s interface team)</p> <p>(Adjust: indicators U3 &amp; A1)</p>	<p><i>“In the West, if we can buy things cheaper in other place, we move on. In China, if you have Guanxi with that person, you keep this relationship long term. We have to adapt to the long term relationship in order to succeed in China.”</i> (Quality Inspector, WB-D’s interface team)</p> <p>(Adjust: indicators U3 &amp; A1)</p>
<b>Chinese Supplier D</b>	<p><i>“We both intend to build long term relationship. As for WB-D, it is not easy to develop a qualified supplier. Once qualified, they want a long term relationship. As for us, we also intend to cooperate with them long term.”</i>(Project Director, CS-D)</p> <p>(NA: indicator NA1)</p>	<p><i>“As for this dimension, there is no difference between the two companies. We all aim for long term relationship. WB-D is willing to develop the kind of supplier worthy of developing like us. They train you in order to ask you to take more responsibilities and risks. When you become a qualified supplier, they will increase their requirements. In fact they are passing risks and responsibilities to us. Of course, if you have the capability, you will get more rewards and contracts.”</i> (Procurement Director, CS-D)</p> <p>(NA: indicator NA2)</p>	<p>(NA)</p>

**Table 8–9: Adaptation to long term orientation of GR vs. short term orientation of WR**

### 8.3.3 Bilateral and Gradual Adaptation

All nine key informants claimed that their adaptation behaviour was gradual and incremental and included changes from both parties. Table 8-10 shows that WB-D's IAAs adapted to Guanxi relationship building process and family orientation and CS-D's IAAs adapted to multiple institutions represented by WB-D's rules and procedures required and self interest; therefore both parties adapted in certain aspects; therefore the adaptation process is bilateral. The adaptation behaviours tend to change from the level of "understand" to the level of "adjust", therefore they were gradual.

Based on above analysis, P4, which describes the cultural adaptation is bilateral and gradual in nature, is supported.

### 8.3.4 Hybrid Cultural Interface

#### 8.3.4.1 Existence of a Hybrid Culture

According to the MOU, both parties expect the outcome of this collaboration to result in mutually beneficial including cost reductions and increased production efficiencies for these aircraft projects. When the informants were asked "*is there a composite culture including elements from both Chinese and Western cultures developed between WB-D and CS-D?*"; all of them answered "yes". The key informants were then asked what their understanding of the composite culture is.

The three key informants of CS-D clearly indicated that there is a hybrid culture and provided a description of what they believe a hybrid culture is. For example, the Procurement Director provided the following answer:

*"There is a hybrid culture. What we learned from WB-D fundamentally is the procedures, rules and risk evaluation and management. The risk management is one kind of procedures. What they learned from us is our devotion. We could work until very late and sacrifice our holidays as long as we can achieve our company's goal. They have also learned the Chinese culture i.e. how Chinese deal with each other."*

The key informants of WB-D corroborated with what the key informants of CS-D perceived. For example, WB-D's Interface Team Leader stated that:

*"Yes, there is a hybrid culture. We have adapted a lot to Chinese culture. CS-D also made their attempt to learn from the West, the rules and procedures. The Project Director of CS-D wants Guanxi. This is fine as long as he delivers. If he does not deliver, I have to go upstairs (where the senior management is based). That's the difficult one for me. I have to work on the relationship, which does not produce goods. Sometimes we have to go back to the Western things."*

This statement suggests that WB-D's IAAs have to adapt to CS-D in terms of building Guanxi reactively at the same time they had to follow their own rules and procedures and made sure that CS-D also followed them; therefore there was a hybrid culture, which includes both Guanxi and Western rules and procedures.

Stages		Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
<b>Behavioural differences</b>				
<b>Family orientation vs. self interest</b>		WB-D: <i>Understand</i> CS-D: <i>Understand</i>	WB-D <i>adjusts</i> to family orientation. CS-D <i>adjusts</i> to self interest.	WB-D: <i>Adjust</i> CS-D: <i>Adjust</i>
<b>Guanxi network vs. multiple institutions</b>		WB-D: <i>Understand</i> CS-D: <i>Understand</i>	WB-D <i>adjusts</i> to harmony within hierarchy feature of Guanxi network. CS-D <i>adjusts</i> to multiple institutions represented by Western operational rules and regulation.	WB-D: <i>Adjust</i> CS-D: <i>Adjust</i>
<b>Guanxi relationship building vs. Western relationship building process</b>	<b>Flexible vs. progressive</b>	WB-D: <i>Understand</i> CS-D: <i>Understand</i>	WB-D <i>adjusts</i> to face and renqing. CS-D <i>adjusts</i> to step by step relationship building.	WB-D: <i>Adjust</i> CS-D: <i>Adjust</i>
	<b>Yin-yang principle vs. dualistic thinking</b>	WB-D: <i>Understand</i> CS-D: <i>Understand</i>	WB-D <i>adjusts to</i> Yin-yang principle. CS-D <i>understands</i> dualistic thinking.	WB-D: <i>Adjust</i> CS-D: <i>Understand</i>
	<b>Personal informal vs. corporate to corporate formal</b>	WB-D: <i>Understand</i> CS-D: <i>Understand</i>	WB-D <i>adjusts</i> to personal and informal nature of GR. CS-D <i>understands</i> corporate to corporate and formal nature of WR.	WB-D: <i>Adjust</i> CS-D: <i>Understand</i>
	<b>Long term vs. short term orientation</b>	WB-D: <i>Understand</i> CS-D: <i>NA</i>	WB-D <i>adjusts to</i> long term orientation. CS-D does not adapt to short term orientation.	WB-D: <i>Adjust</i> CS-D: <i>NA</i>

**Table 8–10: Data display matrix of cultural adaptation process**  
(NA: no adaptation; WB-D: WB-D's IAAs; CS-D: CS-D's IAAs)

Since all IAAs agreed that cultural adaptation creates mutual benefits and a hybrid culture between WB-D and CS-D, P5 is supported. It is agreed by the IAAs that the hybrid culture is a combination of Western rules and procedures and Guanxi, therefore P5a is supported.

#### **8.3.4.2 Who Adapts?**

Informants were also asked “*who are the people adapting to each other and creating the hybrid culture?*” They without exception claimed that cultural adaptation was mainly carried out by those working for the WB-D’s interface team and some middle level managers and top management of CS-D, who work closely with each other.

The Interface Team Leader of WB-D commented on the individuals who adapted in CS-D:

*“This is only confined to the senior management and some middle level managers of CS-D. But the organization as a whole is still a traditional one.”*

The Programme Manager of WB-D commented on who adapted in WB-D:

*“The interface team may be. They are more entering into the Chinese culture. We keep sending fresh people to there in order to make the whole organization understand Chinese culture better.”*

The Project Director of CS-D echoed the Programme Manager by stating that:

*“Our top and middle level management adapted because these are the people who interact most with WB-D and understand WB-D requirements most. As for WB-D, only a few people who have stayed here for a long time and several middle level managers based in the UK have adapted. The middle level managers based in the UK come to visit us very often and are the ones who negotiated with us at the beginning.”*

This is consistent with my observation. The Logistics Head and Quality Manager based at WB-D did not show a good understanding of most of the cultural differences when they were interviewed.

Therefore it can be seen that only those who interacted with each other closely at the interface adapted to each other culturally while others in their companies do not adapt; therefore P5b is supported, which provides additional evidence to support the argument that only those individuals at the interface adapted culturally.

#### **8.3.4.3 Trans-cultural**

There was no trans-cultural identified in this case. The Lead Buyer has had the potential to develop into a trans-cultural because first he is willing to adapt; second he appreciates Chinese culture; third he is flexible; fourth he has been accepted by CS-D employees as an easy going and reasonable person. However he was still in the learning process toward a trans-cultural as observed by the author. One example is when he was asked about the adaptation to Yin-yang principle, he did not realize WB-D’s IAAs practiced it until he was interviewed indicating he ‘adjusted’ to Yin-yang principle (A4).

## 8.4 Relationship between Cultural Adaptation and Mutual Benefits

In answering the second research question, the findings from this case show that mutual benefits grow over time due to cultural adaptation. All key informants answered ‘yes’ to the question: *“Have mutual benefits of the relationship grown due to cultural adaptation of both parties?”*

In tables 8-11 and 8-12, quotes from the interviews with the key informants of WB-D and CS-D are presented. These quotes are extracted from their answers to the interview questions on how both parties adapt to each other in terms of the three cultural behavioural differences. It can be seen that the key informants from both parties perceived all the mutual benefits identified.

<b>Mutual benefits</b>	<b>quotes</b>
Cost reduction benefits	<i>“That’s right. It is much cheaper to manufacture in China.”</i> (Lead Buyer, WB-D’s interface team)
Relationship effectiveness	<i>“We are satisfied with each other’s performance. Because it is a new project between WB-D and CS-D, there’s got to be some issues and concerns but CS-D has done a very good job.”</i> (Lead Buyer, WB-D’s interface team)
Flexible adaptation	<i>“A lot of changes have been made from CS-D. We also changed our behaviours to adapt to them.”</i> (Sourcing Manager, WB-D)
Collaboration	<i>“We started like a partnership. We went there to provide technical support. That was at the initial stage when we set up a plan and helped them. We are doing 3 or 4 things in parallel. We are trying to make sure the right infrastructure and capability in place. CS-D people have been cooperative in doing all these.”</i> (Programme Manager, WB-D)
Trust	<i>“Build some confidence and some favours that you can use in the future. You have to adapt. Yes. I think from learning point of view, if you don’t adapt, nothing will be done. You have to have good relationship, not necessarily Guanxi but small version of it, the first steps of Guanxi.”</i> (Lead Buyer, WB-D’s interface team)
Guanxi quality	<i>“[The author: What do you think of your relationship with CS-D now?] I think it is quite good. I think it is beneficial and honest. If there is a problem, I am confident to ask my counterpart, Mr. A (the Procurement Director of CS-D) for some help. I believe he will help me.”</i> (Lead Buyer, WB-D’s interface team)

**Table 8–11: WB-D’s perception of mutual benefits**

<b>Mutual benefits</b>	<b>quotes</b>
Cost reduction benefits	<i>“With WB-D’s help, our manufacturing cost has been reduced comparing to the beginning of the relationship.” (Quality Director, CS-D)</i>
Relationship effectiveness	<i>“We are satisfied with each other’s performance.” (Project Director, CS-D)</i>
Flexible adaptation	<i>“WB-D as a whole is like this (self interest), but the interface team has changed a great deal. They, as a customer of us, have achieved far more than we expected. They have put a lot of efforts in. If there is something urgent, they will work over time like us. We work toward the same goal, satisfying our common customers.”(Procurement Director, CS-D)</i>
Collaboration	<i>This is a gradual and mutually adapting process. WB-D helps us improve our management standard and adapt to their requirements better. After all, our relationship is a strategic partnership. We set up different forms of communication such as conference calls, weekly meetings and visits. We have no communication problems now.” (Procurement Director, CS-D)</i>
Trust	<i>Their working style is very much down to the earth and easy to communicate. They keep their promises and heartedly help us. I think they are trustworthy. (Procurement Director, CS-D)</i>
Guanxi quality	<i>Our relationship with the interface team is getting better and better. Personal relationships between CS-D and the interface team are excellent. (Project Director, CS-D)</i>

**Table 8–12: CS-D’s perception of mutual benefits**

A questionnaire of mutual benefits was designed for the informants to fill out on site in order to triangulate the qualitative data. All the six items of mutual benefits identified from literature are listed on the questionnaire and the informants were asked to identify in which stage of the relationship the mutual benefits were obtained. There are a number of statements/measurements relating to each mutual benefit. The key informants were asked to rate each statement on a scale from 1 to 5 whether they strongly agree (5) or strongly disagree (1).

Table 8-13 shows that the mutual benefits perceived by each party in each stage of the relationship building process. At the exploration stage of the relationship, there was only cost reduction benefits perceived by WB-D’s IAAs and there was no perception of any mutual benefits by CS-D’s IAAs. At the expansion stage, more mutual benefits were perceived by both parties. At the commitment stage, the rest of the mutual benefits were perceived. It can be seen that the items of mutual benefits perceived by all IAAs increased over time.

Relating table 8-13 to table 8-10, at the exploration stage, IAAs from both parties started “understanding” or “adjusting” indicating that they started adapting culturally, while there were either no mutual benefits or only cost reduction benefits perceived by IAAs. At the expansion stage, the level of cultural adaptation increased from “understand” to “adjust” for most of the processes, while more mutual benefits were perceived by IAAs. In the final commitment stage, the level of cultural adaptation stayed the same as that in the expansion stage while mutual benefits perceived still increased in terms of number of items. It can be seen that cultural adaptation always preceded mutual benefits perceived indicating a probable causal relationship between them.

Table 8-14 shows that all the average scores are close to four, indicating that IAAs generally tend to agree that they have obtained these mutual benefits from the relationship. All the IAAs perceived the quality of Guanxi as a familiar Guanxi.

Based on the analysis and evidence provided, P6, which indicates the causal relationship between cultural adaptation and mutual benefits, is supported.

Generally key informants from WB-D believed that cost reduction benefits were realised during the exploration stage, however, CS-D's key informants indicated that cost reduction benefits were achieved later during the expansion stage. This may be because WB-D's motivation to source from China was to achieve cost reduction and this was achieved from the onset of the relationship with CS-D. If there had not been an immediate cost reduction benefit they would not have developed a long term relationship with CS-D. As the relationship developed into the expansion stage and CS-D adapted to Western rules and procedures, making them more efficient and ultimately achieving cost reduction.

The average score of each of the six items of mutual benefits is higher for the key informants from CS-D than those from WB-D. This may indicate that CS-D obtained more benefits than WB-D.

It is interesting that the Interface Team Leader of WB-D and the Project Director of CS-D got the most number of lowest scores among other key informants within their organizations. As the Interface Team Leader, he has been under pressure from both sides: WB-D and CS-D and stayed away from his family, therefore he may be the one who felt frustrated most.

<b>Process \ IAAs</b>	Quality Manager (WB-D)	Sourcing Manager (WB-D)	Lead Buyer (WB-D)	Team Leader (WB-D)	Project Director (CS-D)	Procurement Director (CS-D)	Quality Director (CS-D)
Stage 1: Exploration	Cost reduction benefits	Cost reduction benefits	Cost reduction benefits	Cost reduction benefits	No Mutual benefits	No Mutual benefits	No Mutual benefits
Stage 2: Expansion	Relationship effectiveness Flexible adaptation Collaboration Familiar Guanxi	Relationship effectiveness Collaboration Trust Familiar Guanxi	Relationship effectiveness Flexible adaptation Trust Familiar Guanxi	Relationship effectiveness Flexible adaptation Collaboration Trust Familiar Guanxi	Relationship effectiveness Collaboration Trust Familiar Guanxi	Relationship effectiveness Flexible adaptation Collaboration Trust Familiar Guanxi	Flexible adaptation Collaboration Trust Familiar Guanxi
Stage 3: Commitment	Trust	Flexible adaptation	Collaboration		Cost reduction benefits Flexible adaptation	Cost reduction benefits	Cost reduction benefits Relationship effectiveness

**Table 8–13: Perceived mutual benefits over time by key informants**

<b>IAAs</b>	<b>Mutual benefits</b>	<b>Cost reduction benefits</b>	<b>Relationship effectiveness</b>	<b>Flexible adaptation</b>	<b>Collaboration</b>	<b>Trust</b>	<b>Guanxi quality</b>
WB-D	Quality Manager	3.67	3.20	3.25	3.25	3.50	Familiar
	Sourcing Manager	4.00	3.60	3.50	4.00	3.75	Familiar
	Lead Buyer	3.33	4.00	4.00	4.00	4.50	Familiar
	Team Leader	3.33	3.20	3.25	3.50	3.25	Familiar
	Average score	3.58	3.50	3.50	3.69	3.75	
CS-D	Project Director	3.67	4.00	3.75	3.75	4.00	Familiar
	Procurement Director	4.00	4.00	4.00	3.75	3.75	Familiar
	Quality Director	4.00	4.20	4.00	4.25	4.25	Familiar
	Average score	3.89	4.07	3.92	3.92	4.00	
Average (all)		3.71	3.74	3.68	3.79	3.86	

**Table 8–14: Mutual benefits rated by key informants at the commitment stage**

## 8.5 Chapter Summary

In this chapter, the propositions developed from Case A are tested. It was found that both parties of Case D adjusted to each other in terms of family orientation vs. self interest and flexible nature of GR vs. progressive nature of WR, therefore P1 and P3a are supported. WB-D achieved the level of 'adjustment' in the adaptation to harmony within hierarchy of Guanxi network, Yin-yang principle and informal and personal feature and long term orientation of GR while CS-D 'adjusted' to multiple institutions represented by rules and procedures and self interest, 'understood' progressive nature, dualistic thinking, formal and corporate to corporate nature of WR and did not understand the short term orientation of WR. It can be seen that P2, P3b, c & d are only partially supported in the sense that they are supported for the adaptation behaviours of CS-D but not for those of WB-D. Similar to Case C, the level of adaptation in this case is generally lower than that in cases A and B.

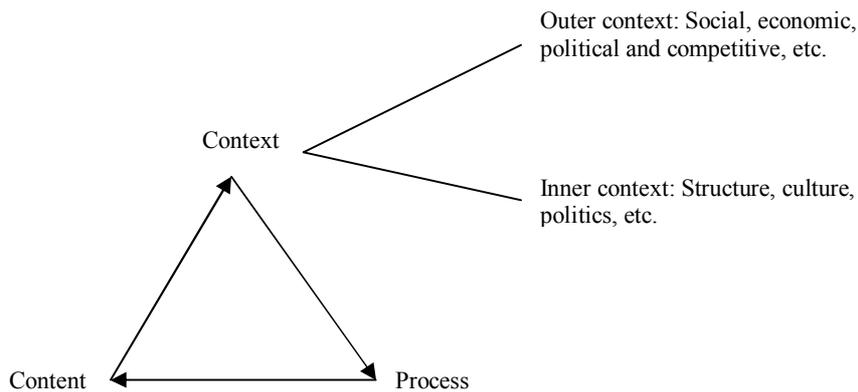
The findings suggest that the cultural adaptation process is bilateral and gradual in nature and a hybrid culture, which is a combination of Guanxi and Western rules and procedures, has developed between WB-D and CS-D. It was also found that only IAAs from both parties adapted culturally and the companies as a whole did not. As the relationship evolved toward commitment, both parties adapted to each other and mutual benefits increase as a result. Therefore P4, P5, p5a, P5b and P6 are supported.

The lower level of cultural adaptation may be because all the members of the interface team are Westerners and were given limited training on Chinese culture and sent to a culture, which is very different from their own to carry out a big and complex project. None of them has developed into a trans-cultural although the Lead Buyer is most likely to develop into a trans-cultural. In the next chapter, the findings from the four cases are compared.

# Chapter 9 : Cross Case Analysis

## 9.1 Introduction

As discussed in the methodology chapter, Pettigrew’s (2003) procedural analysis framework is applied in the cross case analysis. The framework (Figure 1) contains three elements: context, process and content. Content here represents the ‘*what*’ of change or the outcome of change; the ‘*how*’ of change can be translated into an analysis of process; and the ‘*why*’ of change is based on the study of the inner and outer contexts.



**Figure 9–1: A broad framework for understanding change (Pettigrew, 2003)**

Relating to this study, the cultural adaptation to the three cultural behavioural differences by both parties represent three processes, the outcome of which are the mutual benefits and a hybrid culture. The context indicates the outer and inner context to the dyadic relationships.

Figure 9-1 illustrates how change occurs as a cycle from context, to process to content and then these outcomes can in turn become part of the context which influences further processes and outcomes. The change is spurred by outer contextual factors. The outcome or content of the process then change the context (Pettigrew, 2003).

The structure of the chapter is as follows:

Section 9.2 explains the detailed cultural adaptation processes followed by the content/outcome of the cultural adaptation process i.e. hybrid culture discussed in Section 9.3. Sections 9.2 and 9.3 answer the research question No.1. Section 9.4 focuses on the relationship between cultural adaptation and mutual benefits and answers the research question No.2. Section 9.5 identifies the contextual variables influencing the cultural adaptation process and therefore answers the research question No. 3. The three research questions are listed again below:

- 1 How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
- 2 How do the mutual benefits achieved relate to the cultural adaptation process?
- 3 What are the contextual factors affecting the cultural adaptation process?

## **9.2 Process-Cultural Adaptation**

This section focuses on providing the comparative case data on cultural adaptation process that provide part of the answer to the research question No.1- how do Western buyers and their Chinese suppliers adapt to each other?

As discussed in each of the four within case analysis chapters (chapters 5-8), the adaptation behaviours of each party to each of the three cultural behavioural differences are shown in tables 9-1 and 9-2. Table 9-1 shows that the adaptation behaviours for Cases A & B. Table 9-2 presents the adaptation behaviours for Cases C & D.

Case B has the same cultural adaptation processes as case A in terms of the level of adaptation both parties achieved at each stage of the relationship evolving process in relation to the three cultural behavioural differences. In a similar vein, case C has the same cultural adaptation processes as case D. The different adaptation behaviours between Cases A & B and Cases C &D have been highlighted (blue for Cases A & B; red for Cases C & D). A proposition is developed for the adaptation to each of the cultural behavioural differences in Case A Analysis chapter (chapter 5). These propositions and the status of support among the four cases are listed in table 9-3:

Behavioural differences		Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
Family orientation vs. self interest			WB-A,B: <i>Understand</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Adjust</i> CS-A,B: <i>Adjust</i>	WB-A,B: <i>Adjust</i> CS-A,B: <i>Adjust</i>
Guanxi network vs. multiple institutions			WB-A,B: <i>Understand</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Adjust</i> CS-A,B: <i>Adjust</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>Adjust</i>
Guanxi relationship building vs. Western relationship building process	Flexible vs. progressive		WB-A,B: <i>Understand</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Adjust</i> CS-A,B: <i>Adjust</i>	WB-A,B: <i>Adjust</i> CS-A,B: <i>Adjust</i>
	Yin-yang principle vs. dualistic thinking		WB-A,B: <i>Adjust</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>Understand</i>
	Personal informal vs. corporate to corporate formal		WB-A,B: <i>Adjust</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>Understand</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>Understand</i>
	Long term vs. short term orientation		WB-A,B: <i>Adjust</i> CS-A,B: <i>NA</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>NA</i>	WB-A,B: <i>Learn</i> CS-A,B: <i>NA</i>

Table 9–1: Cases A & B data display matrix of cultural adaptation  
(NA: no adaptation; WB-A,B: WB-A,B's IAAs; CS-A,B: CS-A,B's IAAs)

Behavioural differences		Stages	Stage 1: Exploration	Stage 2: Expansion	Stage 3: Commitment
Family orientation vs. self interest			WB-C,D: <i>Understand</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>
Guanxi network vs. multiple institutions			WB-C,D: <i>Understand</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>
Guanxi relationship building vs. Western relationship building process	Flexible vs. progressive		WB-C,D: <i>Understand</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Adjust</i>
	Yin-yang principle vs. dualistic thinking		WB-C,D: <i>Understand</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Understand</i>
	Personal informal vs. corporate to corporate formal		WB-C,D: <i>Understand</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Understand</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>Understand</i>
	Long term vs. short term orientation		WB-C,D: <i>Understand</i> CS-C,D: <i>NA</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>NA</i>	WB-C,D: <i>Adjust</i> CS-C,D: <i>NA</i>

Table 9–2: Cases C & D data display matrix of cultural adaptation  
(NA: no adaptation; WB-C,D: WB-C,D's IAAs; CS-A: CS-C,D's IAAs)

<b>Propositions related to cultural adaptation process</b>	<b>Support?</b>
P1: As a relationship develops toward the commitment stage, interface active agents (IAAs) from both parties tend to adjust to each other in terms of family orientation vs. self interest i.e. Western buyer IAAs tend to adjust to family orientation and Chinese supplier IAAs tend to adjust to self interest.	Yes
P2: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to Western rules and procedures and Western buyer IAAs tend to learn the feature of harmony within hierarchy of Guanxi network.	Partially supported by cases C & D
P3a: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to adjust to step by step nature of WR and Western buyer IAAs tend to adjust to flexible nature of GR by ‘giving face’ and ‘exchanging renqing’.	Yes
P3b: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand dualistic thinking of WR and Western buyer IAAs tend to learn Yin-yang principle of GR.	Partially supported by cases C & D
P3c: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand the formal and corporate to corporate nature of WR and Western buyer IAAs tend to learn the informal and personal nature of GR.	Partially supported by cases C & D
P3d: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend not to adapt to short term orientation of WR and Western buyer IAAs tend to learn long term orientation of GR.	Partially supported by cases C & D
P3: As a relationship develops toward the commitment stage, Chinese supplier IAAs tend to understand or tend not to adapt to features of Western relationship building process and Western buyer IAAs tend to learn most of the features of Guanxi relationship building process.	Partially supported by cases C & D
P4: The cultural process is bilateral and gradual in nature.	Yes

**Table 9-3: Propositions related to cultural adaptation process (Research Question No.1)**

Based on the findings shown in table 9-1 and 9-2, it can be seen in table 9-3 that P1, P3a and P4 have been supported in the four cases. However P2, P3, P3b, 3c & 3d are supported by Cases A & B but only partially supported by Cases C & D. It is also noticeable that the level of cultural adaptation of WB-A & B is higher than that of WB-C & D. More specifically, WB-A & B have reached the “learn” level, whereas WB-C & D only reached “adjust” level in the adaptation to Guanxi network, Yin-yang principle, personal & informal nature and long term orientation of GR.

Although the Chinese suppliers of all four cases have reached the “adjust” level in adapting to Western rules and procedures indicated in P2, the depth of their adjustment was different. Table 9-4 shows that the CS-A & B have adjusted to WB-A and WB-B’s rules and procedures quite well, whereas both parties of Cases C & D admitted that CS-C & D need much more improvement to follow the rules and procedures.

When I did the interviews, I could observe from the responses of the key informants that WB-A & B's IAAs were generally quite happy with CS-A & B's improvement in terms of following their rules and procedures, while WB-C & D's IAAs were not happy with CS-C & D's improvement in this aspect.

Furthermore CS-B has implemented the modern management techniques such as six sigma and lean manufacturing although the implementation was superficial according to the Senior Buyer of WB-B's IPO. However CS-C & D, being in a similar scale as CS-B, have not implemented such tools.

Therefore based on above analysis, it might be concluded that CS-A & B have deeper level of adjustment than CS-C & D in terms of following Western rules and procedure or put it another way they adjusted better than CS-C & D.

	Western Buyers	Chinese Suppliers
Case A	<i>"Of course, we call these rigid requirements, which are not negotiable. They must accept. They have learned a lot of technical as well as management skills from us."</i> (Senior Buyer, WB-A IPO)	<i>"I feel we learn from WB-A in this aspect. What we have learned is to use the procedure and rule to manage the company."</i> (GM, CS-A)
Case B	<i>"We push them toward lean manufacturing, Toyota production system, volatile cycle time. We have a framework which will apply with our suppliers. Eventually they will realize the conventional organizational structure is inefficient. If you go in a Western company, you can go into another working level."</i> (Purchasing Director, WB-B IPO)	<i>"WB-B is world class engine manufacturer. If we don't follow their requirements, we can't do business with them. When we started trading with WB-B, they have a 121-requirements and 21-stages; we followed the stages and requirements closely. WB-B gave us a lot of help, helping us learn their procedures. I feel this is the biggest problem facing Chinese enterprises... when we traded with WB-B, we started adjusting to their requirements."</i> (President, CS-B)
Case C	<i>"They are in the process of improvement. Sometimes they still can't follow our requirements closely then we have to explain requirement to CS-C people one by one."</i> (Senior Buyer, WB-C CST) <i>The individuals decide what to do next. They started adapting to us at the very beginning however we are not very satisfied with them even now, although they have made some improvements."</i> (SQE, WB-C CST)	<i>"In fact, we adapt to WB-C. They are very strict on their requirements and procedures. We would cooperate with them. We adapted to them right from the beginning. I feel their requirements are very strict and they are not always satisfied with our performance."</i> (Marketing Executive, CS-C)
Case D	<i>"We find it was so frustrating... The senior management and some middle level management of CS-D have adapted to our procedures and rules to some degree. For example, it depends on where they have worked before. For example, The Procurement Manager has worked in America for long time, therefore has adapted to Western thinking."</i> (Team Leader, WB-D's interface team)	<i>"We must follow their requirements. We were not so good at it. We did not follow procedures. Now we train our employees on the procedures and cultivate the culture to follow the procedures closely."</i> (Quality Director, CS-D)

**Table 9-4: Cross case comparison of level of adjustment to Western rules and procedures by the four Chinese suppliers**

### **9.3 Content-Hybrid Cultural Interface**

According to Pettigrew (2003), the content indicates the outcome of a change process. Findings of the four cases suggest that the outcome of cultural adaptation is a mutually beneficial hybrid culture between Western buyers and their Chinese suppliers combining elements of Guanxi and Western rules and procedures. This outcome of cultural adaptation is seen as part of cultural adaptation process, therefore forms part of the answer to the research question No.1.

#### **9.3.1 Hybrid Culture**

Based on the findings of the four within case analysis chapters, it is concluded that there was a hybrid/composite culture formed as a result of cultural adaptation at the buyer-supplier interface and the cultural adaptation process also lead to increased mutual benefits for each of the four cases (P5).

It was also found that the nature of the hybrid culture is a combination of Western rules and procedures and Guanxi for each of the four cases; therefore P5a is supported across the four cases. Table 9-5 shows the selected quotes from both parties of the four cases related to the existence and nature of a hybrid culture.

#### **9.3.2 Interface Active Agents (IAAs)**

A comparison of the case research findings indicates that in all four cases the organisation as a whole does not adapt but those individuals who interacted frequently with each other at the interface between Western buyers and their Chinese suppliers adapt culturally; therefore P5b is supported across the four cases. According to the IAAs, these individuals are those who work at the IPO or an equivalent of Western buyers based in China and middle or top management of Chinese suppliers. These individuals are labeled as Interface Active Agent (IAA) in this study. The author's observation also shows that informants who do not interact frequently with the other party and are further away from the interface between Western buyers and Chinese suppliers do not understand most of the cultural behavioural differences therefore do not adapt. This provides indirect evidence to support P5b. Table 9-6 lists all the IAAs of the four cases.

Although the Group Sourcing Director of WB-C and the Programme Manager and the Sourcing Manager of WB-D are based in the UK, they frequently visited CS-C and CS-D respectively and have been heavily involved into the relationships, therefore are considered IAAs. The Marketing Executive of CS-C is the only individual from operational level among the four Chinese suppliers found to adapt culturally. She is the main contact in CS-C for WB-C, interacted closely with WB-C's IPO and served the role of an Account Manager.

	Case A	Case B	Case C	Case D
<b>Western Buyer</b>	<p>“For CS-A, they learn modern enterprise system...For us, we understand the Chinese culture, adjust to Guanxi critically and respect Chinese suppliers. We should not look down at them because we are Western firms. Therefore we kind of mix the two aspects.” (Senior Buyer of WB-A’s IPO)</p>	<p>“I got to make sure that our processes are applied into this relationship so we integrate Guanxi, conference meetings, objective indicators to go through a structured agenda using presentations, data on charts. We blend these two together.” (Purchasing Director, WB’s IPO)</p>	<p>“Yes, there is a composite culture between the two companies. To deal with Chinese suppliers like CS-C, you need to build Guanxi with them; however we can’t be flexible on our basic requirements. We make sure they understand our requirements at the very beginning.” (Group Sourcing Director, WB-C)</p>	<p>“Yes, there is a hybrid culture. We adapted a lot to Chinese culture. CS-D also made their attempt to learn from the West, the rules and procedures The Project Director of CS-D wants Guanxi. This is fine as long as he delivers. If he does not deliver, I have to go upstairs (where the senior management is based). That’s the difficult one for me. I have to work on the relationship, which does not produce goods. Sometimes we have to go back to the Western things.”(Interface Team Leader, WB-D’s interface team)</p>
<b>Chinese Supplier</b>	<p>“There is a hybrid culture. We have learned a great deal from WB-A including management skills, Western way of thinking and behaviours. As a matter of fact, the rules and procedures embedded in the Western culture are very effective. The reason why I am selected to be the General Manager is because the former one didn’t manage the company with procedures and therefore caused a lot of problems even chaos. We combined Western rules and procedures with our Chinese way of management.” (GM, CS-A)</p>	<p>“I reckon that the key to success is mutual adaptation. There is a hybrid culture between WB-B and CS-B. We lean a lot and all around from WB-B such as its planning, personnel management and its procedure of product R &amp; D...WB-B has also changed and adapted to our Chinese culture. No one can change Chinese culture completely. WB-B has to adapt to it and build Guanxi with us. Both are needed to have a successful relationship.” (President, CS-B)</p>	<p>“Yes, there is composite culture developed between them and us. We learn from WB-C the procedures and rules. We emphasized more on the personal capability before. They learn how to deal with Chinese suppliers like us and Chinese culture.”( Marketing Director, CS-C)</p>	<p>“There is a hybrid culture. What we learned from WB-D is the procedures, rules and risk evaluation and management...What they learned from us is our devotion. We could work until very late and sacrifice our holidays as long as we can achieve our goal. They have also learned the Chinese culture i.e. how Chinese deal with each other.” (Procurement Director, CS-D)</p>

**Table 9–5: the existence and nature of a Hybrid Culture**

	<b>Case A</b>	<b>Case B</b>	<b>Case C</b>	<b>Case D</b>
<b>Western Buyer</b>	Sourcing Manager (IPO) Senior Buyer (IPO)	Purchasing Director (IPO) Sourcing Manager (IPO) Senior Buyer (IPO)	Group Sourcing Director (UK) Sourcing Director (CST) Senior Buyer (CST) Supply Quality Engineer (CST)	Programme Manager (UK) Sourcing Manager (UK) Interface Team Leader (IT) Lead Buyer (IT) Quality Manager (IT) Quality Inspector (IT)
<b>Chinese Supplier</b>	General Manager (TM) Account Manager/Vice GM (TM)	President (TM) Chief Engineer (TM) Chief Quality Engineer (TM) Project Team Leader/vice Chief Engineer (TM)	Marketing Director (MM) Marketing Executive (OP)	Project Director (MM) Procurement Director (MM) Quality Director (MM)

**Table 9–6: Interface Active Agents (IAAs) across the four cases**

**(TM: Top Management; CST: China Sourcing Team; IT: Interface Team; MM: Middle Manager; OP: Operational Personnel)**

### 9.3.3 Trans-culturalals

In the pilot study chapter, trans-culturalals were defined as those “who grow beyond their own cultural socialization so that they can understand different cultures with minimal bias and make valid cross-cultural judgments” (Graen and Hui, 1996: 68). Bennett (1993) also proposes a concept of bicultural as effortlessly adjusting behaviour to suit the culture of the people they are with-style switching. It is not difficult to see that these two concepts describe the same type of individuals.

Relating to this research and according to the responses of IAAs, the Sourcing Manager of WB-A’s IPO and the Purchasing Director of WB-B’s IPO have developed into trans-culturalals when the research was conducted in 2008. This is because they have a deep understanding of both Western and Chinese cultures and made valid cross-cultural judgments. Detailed evidence is provided in the Cases A & B Analysis chapters.

The answers they provided to my interview questions are rich, in-depth, and illuminating showing their deep understanding of both cultures, valid cross cultural judgments they made and their effortless style-switching between the two cultures. They are the kind of individuals who are open minded and good at reflecting and summarizing on cross cultural issues.

The Global Sourcing Director of WB-C and the Lead Buyer of WB-D have the potential to become a trans-cultural because they both appreciated Chinese culture and were willing to adapt. The problem for the former is that she was based in the UK and had few chances to interact with Chinese; the latter stayed in China for only three years and it takes time for one to become a trans-cultural.

### 9.3.4 A Derived Proposition

WB-A & B reached the “learn” level and WB-C & D reached the “adjust” level in the adaptation to Guanxi network, Yin-yang principle, personal & informal nature and long term orientation of GR at the commitment stage of the relationship evolving process. The level of adjustment to Western rules and procedures is higher for CS-A & B than CS-C & D. Hence the hybrid culture may contain different levels of cultural adaptation at the commitment stage of the relationship evolving process (P5c). This proposition is derived from the cross case comparison. Table 9-7 shows the propositions developed from the pilot study, case A and cross case analysis related to hybrid culture and the status of support among the four cases.

<b>Propositions related to the outcome (hybrid culture) of cultural adaptation</b>	<b>Support?</b>
<i>P5: Cultural adaptation creates a mutually beneficial hybrid culture that exists at the interface between Western buyers and their Chinese suppliers.</i>	Yes, by all the four cases
<i>P5a: The hybrid culture is generally a combination of Western rule and procedures and Guanxi.</i>	Yes, by all the four cases
<i>P5b: Interface Active Agents (IAAs), who work for Western buyers and Chinese suppliers and interact closely with each other, are most likely to adapt culturally resulting in the creation of a hybrid culture.</i>	Yes, by all the four cases
<i>P5c: The hybrid culture can attain different levels of cultural adaptation at the commitment stage of the relationship evolving process.</i>	Derived

**Table 9–7: Propositions related to hybrid cultural interface**

## **9.4 Relationship between Cultural Adaptation and Mutual Benefits**

This section focuses on providing the cross case findings that answer the second research question, which is related to the relationship between cultural adaptation and mutual benefits. As discussed in the methodology chapter, Yin (2003: 47) claims that “the replication logic is analogous to that used in multiple experiments...each case must be carefully selected so that it either (a) predicts similar results (a literal replication) or (b) predict contrasting results but for predictable reasons (a theoretical replication).”

Base on Yin’s categorization, this section is divided into two sections. Section 9.4.1 provides qualitative evidence that literal replication of the result occurs and is followed by section 9.4.2, which provides both qualitative and quantitative evidence that a theoretical replication of the result takes place. The qualitative data are triangulated by the quantitative data to test causal relationship between cultural adaptation and mutual benefits.

### **9.4.1 Literal Replication**

According to the findings of the four within case analysis chapters, it is noted that there is either no mutual benefit or only cost reduction benefits perceived at the exploration stage and cultural adaptation had already begun at the exploration stage of the relationship in the four cases. This suggests that cultural adaptation began first and then mutual benefits increased as a result. The level of cultural adaptation by both parties of the four cases increased at the expansion stage and then more mutual benefits were perceived at the same stage. The rest of the six-item mutual benefits were perceived at the commitment stage, while the level of cultural adaptation stays the same as that in the expansion stage.

Findings of all four cases support the argument that the perceived mutual benefits are preceded by the cultural adaptation indicating a probable causal relationship between them, i.e., that cultural adaptation causes mutual benefits.

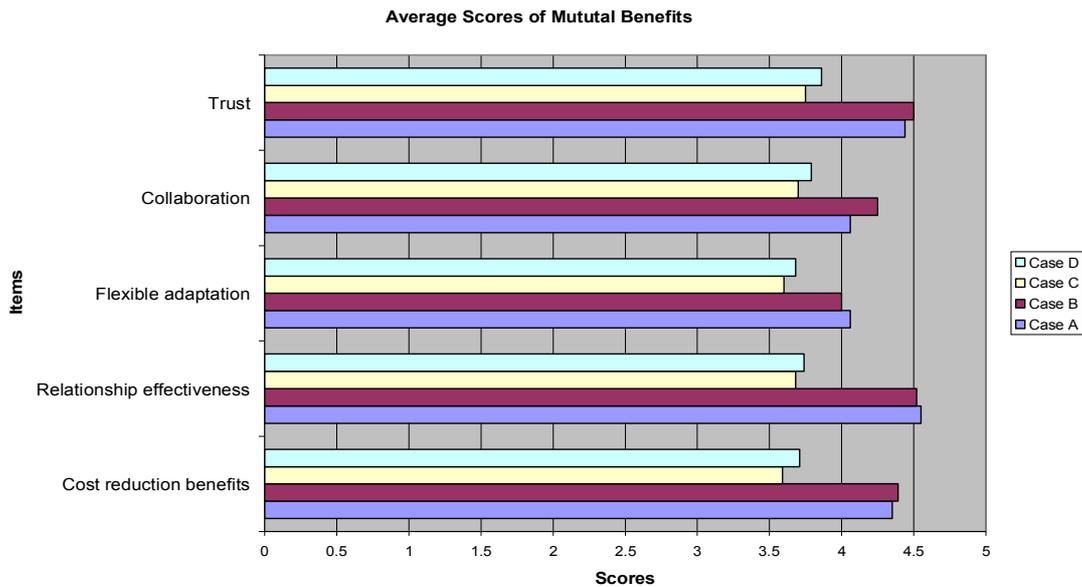
In addition, all the key informants answered yes to the interview question: “Have mutual benefits of the relationship grown due to cultural adaptation of both parties?” All the six-item mutual benefits had been identified by the key informants from both parties for each of the four cases except that WB-C’s IAAs did not perceive the flexible adaptation of CS-C and CS-C’s IAAs did not perceive cost reduction benefits from the relationship with WB-C. Therefore a literal replication of the findings on the causal relationship between cultural adaptation and mutual benefits has been achieved.

### **9.4.2 Theoretical Replication**

As discussed in section 9.2, WB-A & B have reached the highest level “learn”, whereas WB-C & D have only reached “adjust” level in adapting to Guanxi network, Yin-yang principle, personal & informal nature and long term orientation of Guanxi relationship building process. CS-A & B also had a deeper level of adjustment to Western rules and

procedures than CS-C & D did. Hence both parties of Cases A & B had a higher or deeper level of cultural adaptation than that of Cases C & D.

In figure 9-2 below, it is clear that average scores of Cases A & B for each of the five items of mutual benefits are above 4 and average scores of Cases C & D are all under 4 but above 3.5, suggesting that deeper level of mutual benefits may be perceived by the IAAs of Cases A & B than that of Cases C & D. Since all the IAAs of the four cases perceived the quality of Guanxi a familiar Guanxi, therefore Guanxi quality is not included in figure 9-2.



**Figure 9–2: Average scores of five-item mutual benefits**

In this survey, the number of observations (informants) for each group (case) are: 4, 5, 5, & 7 for Cases A, B, C & D respectively. The total sample size is 21. Field (2005) claims that if the sample is small (less than 30); there is no way to test this assumption of normal distribution. Therefore a nonparametric Kruskal-Wallis test was run in SPSS to test difference between Cases A & B as a group and Cases C & D as a group in terms of the five-item of mutual benefits. Kruskal-Wallis test is the Kruskal-Wallis one-way analysis of variance by ranks and a non-parametric method for testing equality of population medians among groups. As a nonparametric test, it does not assume a normal distribution and is therefore regarded as an alternative to the one-way ANOVA, which assumes a normal distribution.

The aim to use K-W test is to compare perceived mutual benefits between Cases A & B as one group (group 1) and Cases C & D as another group (group 2). The sample size for group 1 is 9 and for group 2 is 12.

The null hypothesis is:

$H_0$ : The samples (samples from group 1 and group 2) come from identical populations.

The alternative hypothesis is:

$H_1$ : The samples come from different populations.

The result shows that Cases A & B (group 1) is significantly different from Cases C & D (group 2) in all five items, therefore  $H_0$  is rejected. Since average scores for Cases A & B individually are higher than Cases C & D individually for each item of the six-item mutual benefits, therefore it is concluded that the perceived mutual benefits for Cases A & B are significantly deeper than those of Cases C & D. The detailed test procedure and data can be found in Appendix 10.

As both qualitative and quantitative evidence suggest, when the level of cultural adaptation increase, the perceived mutual benefits increase in both quantity and depth of perception, therefore P6 is supported (Table 9-8).

Proposition related to the second research question	Support
<i>P6: As a relationship develops toward the commitment stage, if the level of cultural adaptation increases, it is likely that perceived mutual benefits also increase.</i>	Yes

**Table 9–8: Proposition related to the second research question**

Dul and Hak (2008) claim that there is a probabilistic and a deterministic way of expressing “A results in B”. This proposition is expressed as a probabilistic causal relationship because there are only four cases available and the total number of observations is 21 across the four cases. Although both qualitative and quantitative data endorse the causal relationship through literal and theoretical replication, due to the small sample size it is discreet to make it a probabilistic statement. Further research based on a larger sample size is needed to establish a deterministic causal relationship.

## **9.5 Context to the Partnerships**

The context is an essential part of case based research and is interwoven with the process. This is the case for the cultural adaptation process of a partnership and its context. This section provides answer to the research question No. 3, which is to identify the contextual variables affecting cultural adaptation process of the four partnerships. Section 9.5.1 discusses the outer context to the cultural adaptation process of the four partnerships and section 9.5.2 in turn explains the inner context. Section 9.5.3 explains what contextual variables influence the cultural adaptation processes.

### **9.5.1 Outer Context to the Partnerships**

In the pilot study chapter, a number of outer contextual variables are identified from literature and interviews of pilot study (table 4-6). Data were collected from the four cases for these variables (table 9-9). Among these outer contextual variables, I look for those influencing the cultural adaptation process and explaining why both parties of Cases A & B have higher level of cultural adaptation than that of Cases C & D.

#### **9.5.1.1 Distance between the Western Buyer’s IPO and the Chinese Supplier**

WB-A and WB-B’s IPO are based in Shanghai. CS-A and CS-B are located in two cities of Yangzi river delta, a couple of hours away from Shanghai by train or car. This is convenient for both to visit each other. The distance between WB-C and CS-C is four hours by air including to and from airports. It is comparatively inconvenient in terms of

time and cost. Case D is a special one because WB-D's interface team works at the same building as CS-D. Therefore based on the findings of these four cases, the distance between Western buyers and Chinese suppliers does not affect the cultural adaptation process.

#### **9.5.1.2 Ownership of Chinese Suppliers**

CS-A & B are owned by private investors. CS-C & D are owned by the state. CS-A & B had deeper level of adjustment to Western rules and regulations than that of CS-C & D. It is claimed by the key informants that Chinese private owned companies generally respond much quicker and are more customer orientated than state owned ones. In state owned companies, top management does not care about the company as much as their private counterparts, who are normally the owner the companies. It is therefore concluded that the ownership of Chinese suppliers seems to affect the cultural adaptation process.

#### **9.5.1.3 Size of Each Party**

In the pilot study chapter, it is proposed that the size of each party is measured by the number of employees and annual turnover. Western Buyer A, B and D are all multiple billion US dollar business and members of Fortune 500 companies employing tens of thousands of people whereas WB-C is smaller but is also a multinational company. CS-A is a medium sized enterprise. CS-B & C are two large domestic enterprises. CS-D is a super large state owned enterprise. It seems that company size does not affect the cultural adaptation process based on the data of this research.

#### **9.5.1.4 Industry**

The four cases are from four diverse types of manufacturing industry: mechanical, automotive, printing and aerospace. The order of four types in terms of investment required from low to high is: printing, mechanical, automotive and aerospace. However based on the findings, industry seems not to play a role affecting the cultural adaptation process.

#### **9.5.1.5 Prior Experiences**

All four Chinese suppliers had previous experiences working with Western buyers. Three out of four Western buyers had previous experiences working with Chinese suppliers. WB-D's parent company did have previous experiences working with CS-D's parent company but WB-D did not. It seems that this factor does not contribute to affect the cultural adaptation process.

#### **9.5.2 Inner Context to the Partnerships**

In this section, a number of inner contextual variables identified from literature detailed in the pilot study chapter are discussed in relation to the cultural adaptation process (table 9-10).

Outer Contextual Variables	Case A		Case B		Case C		Case D	
	WB-A	CS-A	WB-B	CS-B	WB-C	CS-C	WB-D	CS-D
<b>Geographic location (Subsidiary/HQ/IPO)</b>	US/US/ Shanghai	Yangzi river delta (Near Shanghai)	UK/US/ Shanghai	Yangzi river delta (Near Shanghai)	UK/UK/ Shanghai	Pearl river delta (South China)	UK/NA/ North China	North China
<b>Ownership of Chinese supplier</b>	MNC (Fortune 500)	Private	MNC (Fortune 500)	Private (public listed)	MNC	State owned	MNC (Fortune 500)	State owned
<b>No. of employees</b>	50,000	Over 100	34,000	1,800	2,000	Over 1000	28,000	15,000
<b>Annual turnover</b>	13 Billion (2007)	7 Million (2007)	14 Billion (2008)	0.14 Billion (2008)	0.38 Billion (2008)	0.1 Billion (2007)	9.7 Billion (2008)	No data
<b>Previous experiences</b>	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes
<b>Industry/product</b>	Mechanical Manufacturing/ Mechanical precision parts		Automotive/ engine cooling system		Printing/Printing machine power supply		Aerospace/Fuselage	

**Table 9-9: Comparison of the outer context to the four partnerships**  
(Annual turnover for Western buyers indicate that of the company as a whole; Unit: USD)

Inner Contextual Variables	Case A		Case B		Case C		Case D	
	WB-A	CS-A	WB-B	CS-B	WB-C	CS-C	WB-D	CS-D
<b>Duration of the relation</b>	3 and more years		10 years		3 and more years		3 and more years	
<b>Percentage of the purchase in CS's turnover</b>	25-30%		15%		5%		15-30%	
<b>Importance of the relationship</b>	Medium	High	High	High	Medium	Medium	High	High
<b>Frequency of visits</b>	weekly	weekly	fortnightly	fortnightly	monthly	Several times a year	Interface team works within CS-D.	
<b>Senior management involvement</b>	No	Yes	Yes	Yes	No	No	Yes	Yes
<b>Structure of IPOs</b>	All Chinese nationals		Head (British),the rest (Chinese)		All Chinese nationals		All British	

**Table 9-10: Comparison of the inner context to the four partnerships**

### **9.5.2.1 Duration of the Relationship**

The duration of the relationships are three and more years with the exception of case B, in which the relationship has lasted for 10 years until the interviews with them were conducted. It is claimed by some key informants that it takes normally three years to develop a relationship with a qualified Chinese supplier into a partnership. It seems that the duration of the relationship does not affect cultural adaptation process after three years the relationship starts.

### **9.5.2.2 Importance of a Relationship**

The importance of a relationship to each party of the partnerships is discussed separately in this section i.e. importance to the Chinese suppliers and importance to the Western buyers.

#### **9.5.2.2.1 Importance of the Relationship to Chinese Suppliers**

In the pilot study chapter, I explained that the importance of the relationship to Chinese suppliers is measured in terms of the percentage of Western buyers' purchase represented in the Chinese suppliers' turnover, whether or not there is top management of the Chinese supplier involved in the relationship and frequency of visits to the Western buyer. The three measurements are interrelated in a way that if the percentage of Western buyers' purchase is high, the top management of Chinese suppliers tends to be involved and the visits tend to be more frequent. Hence applying the idea of factor analysis of statistics, the three variables can be factored into one, labeled as "importance to Chinese suppliers".

The importance of WB-A to CS-A was high because WB-A's purchase took 30% of its annual turnover and WB-A was No. 1 account of CS-A in 2008. Top management of CS-A was heavily involved in the relationship. CS-A's IAAs visited WB-A once a week, which is very frequent.

The importance of WB-B to CS-B was also high because WB-B was CS-B's No.1 account in 2008 and top management of CS-B was also heavily involved in the relationship. The frequency of visit to WB-B was once in a fortnight.

The importance of WB-C to CS-C was medium because the WB-C's purchase took only 5% of CS-C's annual turnover in 2008 and top management of CS-C was not involved. The frequency of visit to WB-C was monthly. However CS-C considered WB-C a customer with great potential so the importance is medium.

The importance of WB-D to CS-D was high because WB-D's purchase took up to 30% of CS-C's annual turnover in 2008 and top management of CS-D was involved. WB-D sent an interface team to stay at CS-D and they met everyday.

It is found that the importance of the Western buyer to its Chinese supplier for the four cases (A, B, C & D) were high, high, medium and high. It seems that the importance of the

relationship to the Chinese suppliers does not play a role affecting the cultural adaptation process.

#### **9.5.2.2.2 Importance of the Relationship to Western Buyers**

The importance of the relationship to Western buyers is measured in terms of whether the products they source from their Chinese suppliers are critical parts, whether there is top management of the Western buyers involved in the relationship and the frequency of visits to the Chinese supplier. Critical parts indicate those hard to find in the market.

The importance of CS-A to WB-A was medium because the parts they source from CS-A took only a very small part of their total purchase and there was no top management involvement from WB-A. However the parts were precision parts, which were moderately difficult to find in the market; therefore WB-A's IAAs visited CS-A on a weekly basis.

The importance of CS-B to WB-B was high because WB-B sourced 90% of engine oil cooling system from CS-B in 2008, which is a critical part of engines. Top management of WB-B was involved in the relationship. WB-B's IAAs visited CS-B once in a fortnight.

The importance of CS-C to WB-C was medium because WB-C had a second supplier but WB-C was transferring production from a Hong Kong based company to CS-C, therefore they sourced more and more from CS-C. WB-C's top management was not involved. WB-C's IAAs visited CS-C on a monthly basis.

The importance of CS-D to WB-D was high because the two projects that they were working on were the most popular model and a future model of WB-D's portfolio of aircrafts. Top management of WB-D was involved and the interface team of WB-D stays at CS-D.

It is found that the importance of the Chinese supplier to its Western buyer for the four cases (A, B, C & D) were medium, high, medium and high. It seems that the importance of the relationship to the Western buyers does not play a role affecting the cultural adaptation process.

#### **9.5.2.3 Structure of IPOs**

In terms of the structure of the IPOs, WB-A & B's IPO consist mainly of Chinese. The British Purchasing Director has been in China for almost 20 years and has adapted to Chinese culture well. However although WB-C's China Sourcing Team consists of only Chinese, the Sourcing Director of CST just took over the position one year ago and was Westernized in terms of her way of working and not good at Guanxi. WB-D's interface team consisted only of British and they had not worked with Chinese suppliers before.

Moreover, WB-A & B's IPOs consisted of one trans-cultural i.e. the Sourcing Manager of WB-A and the Purchasing Director of WB-B and they both took a key position in the IPOs.

WB-C & D did not have any trans-culturals. It seems that whether or not IPOs have a trans-cultural who also takes a key position is a factor affecting the cultural adaptation process. Whether the trans-cultural is an expatriate or a local Chinese seems not to affect the cultural adaptation process because one trans-cultural is a British and the other is a Chinese. Whether most of the individuals in the IPO are expatriates or local Chinese does not affect the level of cultural adaptation, because WB-A, WB-B and WB-C's IPOs or CST consist mainly of Chinese nationals and WB-D's interface team consists only of Westerners.

### 9.5.3 Contextual Variables Affecting the Cultural Adaptation Process

Following on the discussion in the previous two sections (9.5.1 and 9.5.2), ownership of the Chinese suppliers of outer context and Structure of Western buyers' IPO of inner context seem to be two variables affecting the cultural adaptation process.

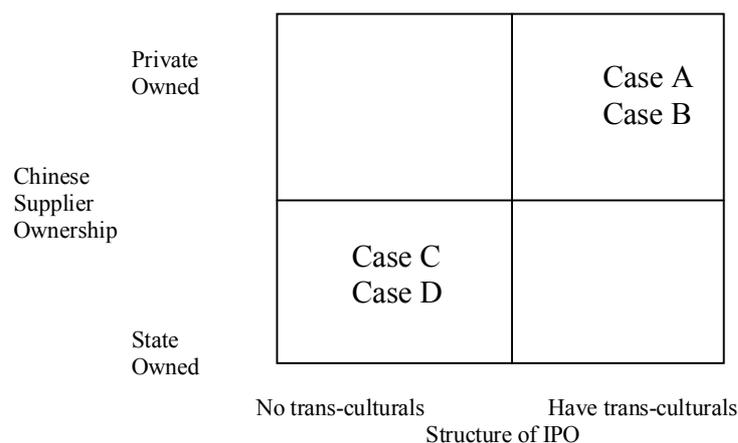
WB-A & B's IPOs consisted of a trans-cultural and they had higher level of adaptation than WB-C's China Sourcing Team and WB-D's Interface Team. CS-A & B were private owned companies and had higher level of cultural adaptation than CS-C & D, which are state-owned ones.

Based on the findings, two propositions relating to the contextual variables affecting the cultural adaptation process are described below:

*Proposition 7: Western buyer's IPOs consisting of a trans-cultural tend to have a higher level of cultural adaptation than those that do not have a trans-cultural.*

*Proposition 8: Chinese private owned suppliers tend to have a deeper level of adjustment to Western rules and procedures than Chinese state owned suppliers.*

In figure 9-3, the four cases are mapped along the two contextual variables/ dimensions emerged.



**Figure 9-3: Four cases plotted along two dimensions**

Case A appears in the top right quadrant of the two by two matrix shown above since CS-A was a private owned company and WB-A's IPO consisted of one trans-cultural. Similarly, Case B also appears in the top right quadrant because WB-B's IPO consisted of one trans-cultural and CS-B was a private owned company, privatised from a state owned one.

Case C is placed in the lower left quadrant because CS-C was a state owned company and WB-C's China Sourcing Team did not have a trans-cultural. Similarly, Case D is in the lower left quadrant because WB-D's interface team did not have a trans-cultural and CS-D was a state owned company.

As discussed in the previous section, whether most of the individuals in the IPO are expatriates or local Chinese does not affect the cultural adaptation process, however WB-D's Interface Team, which consist of only expatriates achieved a lower level of cultural adaptation than that of WB-A & B's IPOs. Besides, due to high demand of adapting to Chinese culture, expatriates are in a disadvantageous position compared to Chinese staff. Therefore the idea of putting predominant number of expatriate staff in the IPO or an equivalent might be misguided. There is also an advantage of keeping at least one expatriate manager for the IPO, who is advantageous in terms of communicating with Western headquarters and subsidiaries. It seems that the ideal structure of IPO is consisting of one or a few trans-cultural western managers and the rest, Chinese staffs.

The ideal supplier according to Purchasing Director of WB-B is private owned company privatized from state owned company. This is because state owned companies tend to have better infrastructure, more skilled workers, better technological basis and higher level of government support. Once it is privatized, it gains the advantages of fast responses. CS-A had a high level of cultural adaptation but it is only a medium sized company and with its expansion, the problems such as lack of experienced worker and technological basis may emerge for CS-A.

## 9.6 Chapter Summary

In this chapter, evidence from cross case analysis provides answers to the three research questions. Table 9-11 shows the status of support for the propositions 1 to 6 across all four cases. Following a replication logic in this chapter, literal replication is achieved for P1, P3a, P4, P5, P5a, P5b and P6. Theoretical replication is achieved for p6. The fact that P2, P3, P3b, 3c and 3d are partially rejected by case C and D actually indicates that the level "learn" is necessary for the relationship to succeed. P5c, P7 and P8 are derived from cross case analysis; therefore they are not shown in table 9-11.

Relating to the context of partnerships, two factors affecting the level of cultural adaptation emerge: whether or not the IPO has a trans-cultural and the ownership of Chinese suppliers emerged as a result of cross case analysis. It is found that IPOs having a trans-cultural in the key managerial position tend to have higher level of cultural adaptation than those that do not have one. The Chinese private owned suppliers tend to have deeper level of adjustment to Western rules and procedures than state owned suppliers.

In the next chapter, conclusions will be drawn for this project and discussions on the future research directions and limitation of the research will be presented.

	P1	P2	P3a	P3b	P3c	P3d	P3	P4	P5	P5a	P5b	P6
Case A	√	√	√	√	√	√	√	√	√	√	√	√
Case B	√	√	√	√	√	√	√	√	√	√	√	√
Case C	√	×	√	×	×	×	×	√	√	√	√	√
Case D	√	×	√	×	×	×	×	√	√	√	√	√

**Table 9–11: Status of support for the propositions 1-6 across the four cases.**  
 (√ Support; × partial reject)

# **Chapter 10 : Conclusion**

## **10.1 Introduction**

After four years' exploration on the topic of cultural adaptation between Western buyers and their Chinese suppliers, it is time to draw conclusions out of this PhD research. The findings from individual cases, particularly Cases C & D, provided insights into an uncomfortable truth. An example of this is the tension revealed between the existing Sourcing Director of WB-C's China Sourcing Team and the Marketing Director of CS-C, which is one of the main reasons why Case C's partnership did not adapt as well as the partnerships in Cases A & B. The findings of this research are unlikely to offend. Indeed, Cases C & D companies could learn from gaps between what they have achieved and what Cases A & B have done on the cultural adaptation process.

Moving on from the cross case analysis, this chapter takes the discussion of the research findings further. Section 10.2 summarizes the project- the research process. The major highlights in the research findings are presented and compared with established theories and concepts from the extant literature in section 10.3. This forms the basis of the research conclusions and leads to the development of an emerging framework of cultural adaptation detailed in section 10.4. In relation to the conclusions, section 10.5 reviews the contribution of the research from two aspects: theoretical and practical contributions. Section 10.6 discusses the limitations of this research providing a thorough critique of the research itself. Areas for future research that have emerged from this project are discussed in section 10.7.

## **10.2 Summary of the Project**

### **10.2.1 Process for Conducting this Research**

This thesis has addressed our understanding of the way that cross-cultural business partners manage their relationship with each other in order to reduce the tension caused by cultural differences between China and the West.

The review of the literature shows cultural differences are one of the major causes for cross-cultural relationships failure. The solution proposed by the literature is cultural adaptation, which is seen as a form of inter-firm learning. However, it is not clear how both parties of a China-UK/US relationship adapt to each other, nor what is the partnership performance implication of cultural adaptation. Having identified the three root cultural behavioural differences between China and the West, the study went on to explore the cultural adaptation process and its partnership performance implication.

The concept of cultural adaptation has previously been studied at an individual level, for example, expatriates' adjustment to local culture (Jun et al., 2001; Jassawalla et al., 2004; Haslberger, 2005). However, in this study, cultural adaptation has been studied at a business to business level i.e. between a Western buying and a Chinese selling firm.

Two studies have been more helpful in providing a framework for studying the cultural adaptation. Lin (2004) proposes a model of three levels of cultural adaptation i.e. understand, adjust and learn. Dwyer et al. (1987) provide a five-stage relationship model from awareness, exploration, expansion, commitment and dissolution. Dwyer's model was then adapted by removing awareness and dissolution.

This research builds on Lin (2004) and adapted Dwyer's models and look retrospectively at which level of the cultural adaptation was achieved at each of the three stages (exploration, expansion and commitment) for each party of a partnership in terms of the three root cultural behavioural differences. Six-item of mutual benefits have also been identified and integrated into the conceptual model to represent the causal relationship between cultural adaptation and mutual benefits.

Cross case analysis has been examined through the lens of Pettigrew's (2003) change management model. The cultural adaptation process is considered a change process. This process produces some outcome, in this case, mutual benefits and a hybrid culture within a partnership. The third element of the change management process is context. Two contextual variables affecting the cultural adaptation process emerged from the cross case comparison. In the following, a summary on how the thesis is organized is presented.

Chapter one (introduction) set the scene of this thesis discussing the rationale and major issues of this research.

Chapter two provided an overview of relevant conceptual and empirical literature comparing Guanxi and Western forms of supply relationship management, linking cultural behavioural differences, cultural adaptation and partnership performance. Two research questions and an initial conceptual framework were developed based on the gaps identified in the literature.

In chapter three, the author's philosophical stance was first discussed to guide the research design. Then a discussion on why multiple case study method was selected for this research was presented and was followed by the detailed case study research design. A five-stage case study process was applied (table 3-2). This model emphasizes that the whole process is an iterative one and was demonstrated in detail in chapter four.

In chapter four, the pilot study chapter, two iterations of the development of the conceptual framework were presented. The first iteration was achieved in relation to the pre-pilot test with academics, a result of which is the revised conceptual framework from the initial one developed from literature. The second iteration was achieved through the pilot test, from which the final conceptual framework for the major field work was developed incorporating the findings from the pilot cases and additional relevant literature.

Applying this final conceptual framework for the major field work in chapter five to eight, the within case analysis of Cases A, B, C & D were discussed. A number of propositions

were developed from case A. The following three Cases B, C & D were used to test the propositions developed.

In chapter nine, findings from within case analysis chapters were juxtaposed to search for patterns across the four cases leading to the support or partial support of the propositions. Two contextual variables affecting the cultural adaptation process emerged from the cross case comparison. Two additional propositions were developed in relation to the two contextual variables.

In this final chapter, the implications of these research findings are discussed as I present a summary of the research findings and conclusions particularly in terms of the contribution to the theoretical and practical knowledge of cultural adaptation. In addition, other limitations to the research, which have not been previously discussed in the methodology chapter, are highlighted and the chapter ends on a note suggesting areas for future research.

### **10.2.2 Ensuring the Rigor of the Case Study Research**

The five-stage process (table 3-2) used to structure the methodology chapter provided rigor to the research design. The summary of the project detailed in previous section explained this whole process but the final stage i.e. dissemination, which was also discussed in table 3-2. The dissemination of this research has already been achieved as follows: four conference papers, a practitioner journal paper, a peer-reviewed journal paper (IJLM) and this PhD thesis. Two more empirical papers are being prepared for submission to high quality peer-reviewed OM/SCM journals as a result of the PhD. There is also a potential for the research cases to be developed into teaching cases in the future for the module of international supply chain management. Due to the strong practical implication of this research, an additional paper targeting practitioner audience will also be developed. A list of published papers and papers in preparation related to my PhD can be found in appendix 1.

As a final check, I assessed this research against Yin's (2003) four tests, which were introduced in the methodology chapter (table 3-4).

1. Construct validity: This case study has drawn on several sources of evidence across the four cases. Data were collected through semi-structured interviews, direct observation and documentations to triangulate with each other. Data were also collected by both qualitative and quantitative methods.

The chain of evidence was maintained from the pilot case data, the within case analysis and the cross case analysis and the juxtaposition of the research findings with the literature, which is performed in section 10.3. The draft report for case D was reviewed by one of the informants from WB-D. The interview questions, pre-interview questionnaire and mutual benefits questionnaire were back translated by an academic who has experiences in doing cross-cultural research and grasps both English and Chinese languages. Selected quotes were also back translated by this

academic. It was found there were no major discrepancies between the original questionnaires and quotes and translated ones.

2. Internal validity: Pattern matching was used to compare conceptual model with empirical patterns. The propositions developed from Case A were compared with empirical patterns emerged from the following three cases.
3. External validity: Replication logic was followed to conduct the cases following case A. Literal replication was achieved because similar results were gained across the four cases. Theoretical replication was also achieved by contrasting cases. Cases A & B were found to be good examples of cultural adaptation indicated by higher level of cultural adaptation accompanied by greater perceived mutual benefits. Cases C & D were found to be not so good examples indicated by lower level of cultural adaptation accompanied by less perceived mutual benefits.
4. Reliability: A case study protocol was employed to guide data collection. A database for each case was developed including a field research diary, field notes, transcript, recording, and completed pre-interview and mutual benefits questionnaires.

### **10.3 Summary of the Findings**

The purpose of this section is to provide an overview of the findings from the whole project and a comparison with the literature to ask what is this similar to and what does it contradict (Eisenhardt, 1989b).

There are three research questions in this study:

1. How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
2. How do the mutual benefits achieved relate to the cultural adaptation process?
3. What are the contextual factors affecting the cultural adaptation process?

Section 10.3.1 presents answers to research question No.1. Section 10.3.2 summarizes findings on the relationship between cultural adaptation and mutual benefits and answers research question No. 2. At last, contextual variables affecting the cultural adaptation process are presented in section 10.3.3, which address the research question No.3.

#### **10.3.1 Answers to Research Question No.1**

Answers to the first research question are divided into two sub-titles. First the findings on the cultural adaptation process are summarized. Second the findings on the outcome of cultural adaptation are examined. These two parts together form a complete answer to research question No.1.

### 10.3.1.1 Cultural Adaptation Process

Based on the cross case analysis of the four cases, P1, P3a and P4 have been supported across the four cases. However P2, P3, P3b, P3c, and P3d are supported by Cases A & B but partially supported by Cases C and D.

Among the propositions supported, both parties of the four cases have achieved the level of 'adjust' in the adaptation to family orientation vs. self interest (P1), step by step nature of Western relationship building process vs. flexible nature of Guanxi relationship building process (P3a). This indicates that both parties of the four relationships adapted to each other in these two aspects. Propositions 4 describe the cultural adaptation process as a gradual and bilateral process rather than a sudden movement from one place to another.

Among the propositions partially supported, it was found that the level of cultural adaptation of WB-A & B is higher than that of WB-C & D in all three stages. More specifically, WB-A & B have reached the "learn" level, whereas WB-C & D have only reached the "adjust" level in the adaptation to Guanxi network (P2), Yin-yang principle (P3b), personal & informal nature (P3c) and long term orientation (P3d) of Guanxi relationship building process at the expansion and commitment stages.

Although the Chinese suppliers of the four cases have reached the "adjust" level in adapting to Western rules and procedures indicated in P2, they were in different levels of adjustment. Evidence suggests that the CS-A & B have adjusted to WB-A & B's rules and procedures quite well whereas both parties of cases C & D admitted that CS-C & D need much more improvement to follow WB-C & D's rules and procedures.

It can also be seen that the IAAs from Western firms adapted to family orientation, Guanxi network and Guanxi relationship building process and the IAAs from the Chinese suppliers adapted to Western rules and procedures and self interest. As discussed in the literature review chapter, family orientation, Guanxi network featured by harmony within hierarchy, and Guanxi relationship building process are considered constructs of Guanxi. Therefore it can be concluded that the IAAs from Western firms adapted to Guanxi.

Luo (1997) claims that Guanxi between individuals is intertwined with relationships between business firms in China. In the West, individual relationships tend to be separated from business relationships and rules and procedures take the predominant position in business relationships. Self interests are respected by law such as working conditions and individual employee's welfare; however this is also governed by the rules and laws. The adaptation of the IAAs from Chinese suppliers to self interest can be seen as the adaptation to rules and regulation too. Therefore, it can be concluded that the IAAs from Chinese suppliers adapt to multiple institutions represented by rules and regulations.

The evidence of this study supports the claim in the literature that adaptation is a bilateral and gradual process rather than unilateral and sudden movements from one state to another

(Koulikoff-Souviron and Harrison, 2007). However in that paper, the adaptation was studied in a Western context, while in this paper, it is studied from a cross-cultural context. The evidence shows that the same gradual and bilateral nature exists in the cross-cultural adaptation process.

Brennan et al. (2003) review and classify different types of dyadic adaptation; however the classification only covers the “hard” side such as production planning, delivery procedures, tailor-made products, greater exchange of information and financial terms. They argue that adaptation by supplier firms is found to be more frequent than adaptation by buyers. Although findings from this research suggest the process is bilateral, this does not contradict to Brennan’s findings. This is because in their research, the soft side such as culture was not addressed. Evidence from this research suggests that Western buyers adapt to the soft side i.e. Chinese culture especially Guanxi whereas Chinese suppliers adapt to the hard side i.e. rules and regulations.

In the literature review chapter, a number of authors (Child, 1994; Boisot and Child, 1999; Salmi, 2006) argue that Western multinational corporations can absorb the environmental complexity of doing business in China through enlisting the support of local allies. This entails a greater degree of participation in local relational systems. However they do not explicitly explain first what the local relationship system is and second how to adapt to it from Western firm’s perspective. This research has addressed these two issues.

Child (1994) argues that in joint-venture management relationship, there are three levels of change in Chinese management as a result of foreign involvement. The first one is due to the introduction of new technology. The second level is the introduction of new procedures and system, which have behavioural consequences. The third level of change is the emergence of new pattern of thinking about business objectives and how they can be realized through interaction with the environment.

It seems that the three levels of change can be applied in Chinese suppliers of cross cultural partnerships. The introduction of new technology must have occurred at the beginning of the relationship. The introduction of new procedures and systems, labeled as Western rules and procedures are the focus of this research. The Chinese suppliers of the four cases are still in the process of adapting to this aspect since none of them have reached the ‘learn’ level. There is no evidence from this research suggesting that new pattern of thinking about business objectives emerged in the Chinese suppliers.

#### **10.3.1.2 Hybrid Culture**

Findings of the four cases suggest that first the hybrid culture does exist and is an outcome of the cultural adaptation process (P5); second the nature of a hybrid culture a combination of Guanxi and Western rules and procedures (P5a).

It is also found that it is not the whole company that adapts, but rather those individuals who interact closely with the other party at the interface between Western buyers and their Chinese suppliers adapt culturally (P5b).

The hybrid culture can attain different levels of cultural adaptation in the commitment stage of the relationship evolving process (P5c). P5c was derived from the cross case analysis. WB-A & B have reached the “learn” level and WB-C & D have only reached the “adjust” level in the adaptation to Yin-yang principle, personal & informal nature and long term orientation of Guanxi relationship building process. The level of adjustment to Western rules and procedures of CS-A & B is higher than that of CS-C & D. This indicates that the nature of the hybrid culture in the commitment stage does not necessarily contain the highest level of cultural adaptation i.e. “learn”, but sometimes is characterized by a lower level of adaptation i.e. “adjust”.

There are a number of concepts describing a hybrid culture. The atmosphere proposed by IMP group is a blend of two organizational cultures. So is the concept of hybrid culture proposed by Wilson (1995) and Bory and Jemison (1989). The hybrid culture formed between Western buyers and their Chinese suppliers in this research is a mix of Chinese and Western national cultures.

Graen et al. (2004) describes a mix of national cultures and propose a “third culture bonds” model, defining the third culture as “a culture in which the different cultural backgrounds of the organization or group members are synthesized into a new culture that is acceptable to members”. However this model does not explicitly explain what the nature of the hybrid culture is. This research has addresses this issue and indicated that the nature of the hybrid culture is a combination of Guanxi and Western rules and procedures.

Borys and Jemison (1989) propose a concept of boundary permeability, which refers to the resources invested by both parties to the hybrid arrangement. Relating to this research, it could be interpreted as how deep the hybrid culture permeates into the organizations. In this research, findings show that only the IAAs who routinely interacted at the cultural interface adapted culturally indicating that the hybrid culture did not permeate into other parts of the case companies. There is no other research in relationship adaptation literature addressing the permeability issue.

### **10.3.2 Answers to Research Question No.2**

In the cross case analysis, a literal replication was achieved on the causal relationship between cultural adaptation and mutual benefits. It is noted that the cultural adaptation process had already begun and there was either no mutual benefit or only cost reduction benefits perceived at the exploration stage of the relationship across the four cases. This indicates that cultural adaptation began first and then mutual benefits might increase as a result. The level of cultural adaptation by both parties increased at the expansion stage and then some of the mutual benefits were perceived at the expansion stage.

The level of cultural adaptation stays the same at the commitment stage as that in the expansion stage, whereas the rest of the six-item of mutual benefits were perceived at the commitment stage. The mutual benefits perceived is always preceded by the cultural adaptation indicating a probable causal relationship between them, in a way, that cultural adaptation may cause mutual benefits.

All the key informants answered yes to the following interview question:

“Have the mutual benefits of the relationship grown due to cultural adaptation of both parties?” All the six-item of mutual benefits were identified by the key informants for each of the four cases except that WB-C’s IAAs did not perceive the flexible adaptation of CS-C and CS-C’s IAAs did not perceive cost reduction benefits from the relationship with WB-C.

A theoretical replication was also achieved in the cross case analysis, It is revealed that Cases A & B as a group contrast with Cases C & D as a group in a way that Case A & B having a higher level of cultural adaptation also have obtained greater perceived mutual benefits. This might also lead to a conclusion that the cultural adaptation causes mutual benefits.

Evidence from both literal and theoretical replication shows the causal relationship between cultural adaptation and mutual benefits, therefore it is concluded that it is likely that there is a causal relationship between them.

A number of authors including Lin (2004) and Bessant et al. (2004) indicate the causal relationship between cultural adaptation or inter-firm learning and mutual benefits, however they provide no or very little empirical evidence on this. This research empirically tests this causal relationship.

### **10.3.3 Answers to Research Question No.3**

Evidence from contrasting cases shows that the two private owned Chinese suppliers (CS-A & B) tended to adapt better than the two state owned Chinese suppliers (CS-C & D) in the adaptation to Western rules and procedures, therefore it is concluded that the ownership of Chinese supplier may affect the cultural adaptation process.

Evidence also suggests that the two IPOs (WB-A & B’s IPOs) with a trans-cultural adapt better than the two equivalents of IPO (WB-C’s China Sourcing Team and WB-D’s Interface Team) without a trans-cultural in the adaptation to Guanxi; therefore it might be concluded that whether or not an IPO has a trans-cultural may affect the cultural adaptation process.

Wilkinson et al. (2006) compare the advantages and disadvantages of Chinese State Owned Enterprise (SOE) and Private Chinese Enterprise (PCE) and their implications on Chinese suppliers’ performance based on a survey and interviews with 75 UK/US manufacturing operations in China. According to their literature review, most PCEs are family owned with

simple structures that allows them to react quickly to opportunities. However relative to SOEs, both employment security and worker loyalty of PCE are low, which may be obstacles to the development of human and social capital necessary for the development of JIT/TQM production and delivery capabilities. The size and competencies are another two concerns over PCEs' capability. As for SOEs, political interference, social obligation (carrying surplus labours), and high agency costs hinder their performance. They conclude that PCEs perform better than SOEs regarding quality, delivery, responsiveness to customer demands and willingness to invest in the relationship and Western firms prefer to engage with PCEs.

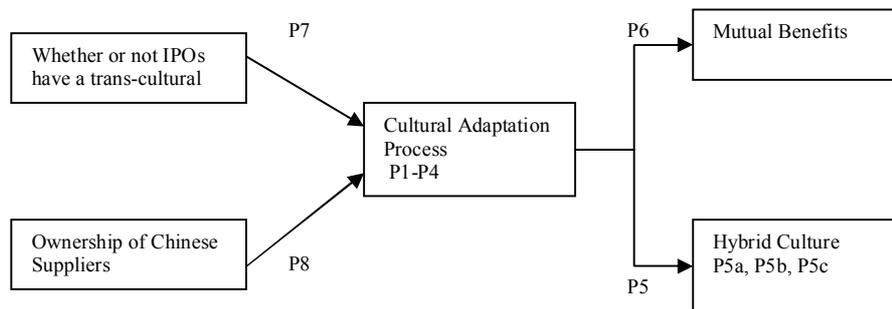
This research confirms their findings on the better performance of PCEs than SOEs. This is shown in the better adaptation to Western rules and procedures by the two Chinese private owned suppliers- CS-A & B and greater perceived mutual benefits by both parties of Cases A & B. Contrary to the literature on the perception of high turnover and lack of competency, Chinese Supplier B retained a high level of employee loyalty and has built world class capability in the manufacturing of oil cooling system. It is a private owned enterprise successfully privatized from a state owned enterprise in 1998. It is claimed by the Purchasing Director of WB-B's IPO that this type of Chinese supplier is sought after by Western firms because it has advantages of both SOEs and PCEs.

As for the structure of IPO, there is so far no literature addressing this issue. This research may be the first attempt to explore it. The most comprehensive research to date on IPOs is shown in two papers and a book by two Italian scholars Nassimbeni and Sartor (2006a; 2006b; 2007). Their research discusses the role of IPO and a typology of sourcing in China, however it does not discuss the structure of IPOs.

#### **10.4 Emerging Framework of Cultural Adaptation**

Figure 10-1 presents a model of cultural adaptation including the cultural adaptation process, the outcome i.e. hybrid culture and mutual benefits, and contextual variables affecting the cultural adaptation process.

The first four propositions (P1-4) are statements regarding the cultural adaptation process itself. P5 indicates the relationship between cultural adaptation and a hybrid culture, in which the former leads to the latter. Propositions 5a-5c are statements in relation to the hybrid cultural interface. P6 indicates the causal relationship between cultural adaptation and mutual benefits. P7 presents a causal relationship between whether or not IPOs have a trans-cultural and the level of cultural adaptation. P8 in turn is described as a causal relationship between ownership of Chinese suppliers and the level of cultural adaptation.



**Figure 10-1: An emerging model of cultural adaptation**

As a result of the findings, the conceptual framework has evolved from the initial model proposed in chapter two (literature review chapter) and developed further in chapter four (pilot study chapter). This model is differentiated from the previous one, which is the final model for major field research (Figure 4-2). That previous model was drawn as a diagram showing the relationship between cultural adaptation and mutual benefits and hybrid culture. This model presents itself as relationships between variables.

The differences between this new model and previous one are:

- 1) Two contextual variables (whether or not IPOs have a trans-cultural and ownership of Chinese suppliers) influencing cultural adaptation emerged.
- 2) The relationships are made more explicit that cultural adaptation leads to mutual benefits and a hybrid culture.

## 10.5 Contributions of the Research

This section is divided into two parts. Section 10.5.1 discusses the contribution of this study to theory and section 10.5.2 focuses on contribution to practice.

### 10.5.1 Contributions to Theory

The research tells a story of cultural adaptation including the cultural adaptation process, its outcome and the contextual variables affecting cultural adaptation. The cultural adaptation is also linked with partnership performance or mutual benefits. This study contributes to the literatures of supply relationship management and supply chain learning (SCL).

#### 10.5.1.1 Contribution to Supply Management

In the paper titled “Supply management: is it a discipline?”, Harland et al. (2006) answer the question by stating that supply management is an emerging rather than a established discipline because it shows evidence of increasing coherence, quality and impact, which are the key criteria of the academic discipline evaluation framework. They continue to claim that the field of supply management is evolving, developing positively and addressing discipline and theory issues.

Within this emerging literature, Ellram (1991) claims that there has been long-term but limited research in international purchasing. Discussing international purchasing in a Chinese context, Salmi (2006: 198) points out that “given the dramatic opening up of China to global competition, there are surprisingly few studies on international purchasing in this context...we still know very little about the content and development of the relationship that Western companies have established with their Chinese suppliers. Empirical data is scarce and there is a lack of conceptual analysis of international supplier relations in China, in particular.”

This research is grounded in this body of literature and is one attempt to fill this gap in the supply relationship management literature by building on and extending previous models on supply relationship management. More specifically this study contributes to supply relationship management literature in four aspects. They are discussed in detail in the following sections.

#### **10.5.1.1.1 Contribution of the Hybrid Culture Model**

The Hybrid Culture Model in this study contributes to supply relationship management literature by building on and extending previous hybrid cultural models such as IMP Group’s concept of atmosphere, Wilson’s (1995) hybrid concept and the Third Culture Bond (TCB) model in joint venture literature (Graen and Hui, 1996). It enriches previous models by integrating the adaptation content i.e. cultural behavioural differences and the adaptation process, which make explicit the nature of the hybrid culture in a Sino-Western context.

Bory and Jemison (1989) propose a hybrid theory which focuses on the boundaries of hybrid arrangements, shared norms and values and also permeability. This article attempts to define the boundary of ‘a hybrid’ i.e. “which resources and obligations belong to and which do not” (p235). However, it is from a focal company’s perspective and does not focus on the relationship itself.

Wilson (1995) builds on Dwyer et al.’s (1987) five-stage relationship evolving framework and introduces the concept of a hybrid relationship derived from the IMP Group’s concept of atmosphere (Hakansson, 1982). The hybrid culture is defined as “a composite of the cultures of the buying and selling firms which straddles the space between buyers and suppliers with a unique blend of the cultures of the firms” (Wilson, 1995: 340). What Wilson and IMP Group generally describe is a mix of organizational cultures.

In a context of international joint venture, Graen et al. (2004) propose a “Third Culture Bond” model, defining the third culture as “a culture in which the different cultural backgrounds of the organization or group members are synthesized into a new culture that is acceptable to members”. What Graen et al. (2004) propose is a mix of national cultures; however, it is not clear what the nature of the third culture is in that paper.

In a Sino-Western business relationship context, Roper and Weymes (2007) propose that the East and West can develop hybrid models of business that can build social capital by incorporating Confucian philosophical values into the Western concept of social well-being and social capital. This is especially valid for international partnership.

From above, it can be concluded that although the idea of a hybrid or mixed culture is not new, the literature does not describe the process of transformation from cultural stranger to cultural insider. Nevertheless, if we consider Francis's (1991) definition of cultural adaptation, the implication is that a hybrid culture forms as a result of the behavioural changes of interacting individuals from each organisation.

This research concludes that the nature of the hybrid culture is a mix of Western and Chinese cultures, more specifically elements of Guanxi and Western rules and procedures. It builds on previous models by indicating explicitly the knowledge input (cultural behavioural differences) and integrating the knowledge input, relationship evolving process (exploration, expansion and commitment) and cultural adaptation process (understand, adjust and learn).

Previous hybrid cultural models did not provide an answer to 'the question of who adapts'. This research answers this question by concluding that cultural adaptation takes place between individuals working closely with each other and operating at the buyer-supplier interface during the relationship building process and that successful cultural adaptation will lead to a hybrid culture.

#### **10.5.1.1.2 A New Area of Adaptation**

Since cultural adaptation occurs in a cross-cultural context, in this case Chinese–UK/US buyer-supplier relationships, this research contributes to the supply relationship management literature by adding a cultural dimension. The cultural behavioural differences are seen as adaptation content/input. The adaptation to these differences is different from the extant buyer-supplier adaptation literature because this presents itself as a new area of adaptation.

Brennan et al. (2003) review and classify different types of dyadic adaptation; however the classification only covers the 'hard' side such as production planning, delivery procedures, tailor-made products, greater exchange of information and financial terms. Hence they reach the conclusion that adaptation by supplier firms is found to be more frequent than adaptation by buyers. Evidence from this research suggests that the cultural adaptation process is bilateral and gradual. Western buyers adapt to the 'soft side' i.e. Chinese culture, especially Guanxi, whereas Chinese suppliers adapt to the 'hard side' i.e. rules and regulations. However this finding does not contradict Brennan's et al. (2003) conclusion, because the cultural differences between China and the West present a new area of adaptation which is neglected by previous research including Brennan et al. (2003).

#### **10.5.1.1.3 Contribution to the Supplier Selection Literature**

The research contributes to the supplier selection of supply management literature. As discussed in the pilot study chapter, the Purchasing Director of WB-B stated that there is a spectrum of five categories of supplier in China (Figure 4-3). The first three categories are suppliers with foreign investments in China, which are not the focus of this research. The latter two include Chinese private-owned suppliers and Chinese state-owned suppliers. The research findings suggest that Chinese private-owned suppliers adapting better than Chinese state-owned suppliers also obtained higher perceived mutual benefits.

Based on the qualitative analysis of interviews with 75 UK and US companies operating in China, Wilkinson et al. (2006) conclude that Private Chinese Enterprises (PCEs) perform better than Chinese State-Owned Enterprise (SOEs) regarding quality, delivery, responsiveness to customer demands and willingness to invest in the relationship; Western firms also prefer to engage with PCEs.

It can be seen that this research supports their findings but goes one step further in finding that those PCEs privatized from SOEs are ideal suppliers for Western firms because they possess the advantages of both types of Chinese enterprises. However, this proposition is subject to further empirical tests because this is the view of the interviewees from Western buyer B's IPO and was not expressed by informants from other Western firms.

#### **10.5.1.1.4 Contribution to IPO Management Literature**

The finding shows that IPOs having a trans-cultural adapted better culturally than those without a trans-cultural. The structure of IPOs is related to the capabilities required for Western firms to have a successful cultural adaptation in China. This is an under-researched area within the supply management literature because so far there has only been limited research published on this topic (Nassimbeni and Sartor, 2006a; 2006b; 2007; Sartor, 2006).

Nassimbeni and Sartor (2006b) claim that creating an International Purchasing Office (IPO) is one of the solutions most frequently adopted by companies to manage their international sourcing activities. They continue to argue that, first, there are few published academic papers regarding IPOs, and second, that no publication specifically describes the Chinese context and an in-depth analysis of IPOs needs a country-specific approach because there are a number of normative, social, political, cultural and local factors that strongly influence the characteristics of IPOs. This is identified as a key future research direction detailed later in this chapter (section 10.7). Therefore this research is one of the first attempts to tap into this new area of research.

The research contributes to this body of knowledge by pointing out that the role of IPOs is crucial for Western firms sourcing in China to adapt to Chinese culture and that the ideal structure of IPOs consists of one or several trans-cultural managers with the rest being Chinese staff. Again, the proposition needs to be tested with more cases.

### **10.5.1.2 Contribution to Supply Chain Learning**

At a supply chain level, Bessant et al. (2003) first proposed the concept of Supply Chain Learning (SCL), which refers to learning behaviours in an inter-firm context. Spekman et al. (2002) argue that supply chains are vehicles for gathering knowledge and learning, and learning in an inter-firm context is affected by factors that are relationship specific such as the type of relationship formed and its stage of development.

Since cultural adaptation is considered a form of international inter-firm learning, this research contributes to SCL literature by linking learning and relationship performance measures. Bessant et al. (2003) provided some evidence to support the argument that SCL leads to improvement measured in terms of hard aspects e.g. on time delivery and sales growth, but do not link it to soft relationship related measures. The conclusion drawn from Bessant's study is based on literal replication across five out of six cases. For the five cases, the number and content of benefits perceived are diverse. This research builds on Bessant's study and provides more solid empirical evidence on this causal relationship and also proposes the six-item qualitative perceptual performance measurements or mutual benefits measurements, which are gaining popularity in the supply chain relationship performance measures.

Both literal and theoretical replications of the results are achieved. All the key informants answered yes to the question "Have the mutual benefits of the relationship grown due to cultural adaptation of both parties?"; therefore a literal replication is achieved. This research is different from Bessant's study in the sense that it also achieved theoretical replication by predicting contrasting results for predictable reasons. It is found that Cases A & B achieving a higher level of cultural adaptation also obtained greater perceived mutual benefits than Cases C & D. Therefore a theoretical replication is obtained.

### **10.5.2 Contributions to Practice**

This research benefits Western buyers and their Chinese suppliers by increasing the awareness of cultural differences and by providing a framework for cultural adaptation and a set of partnership performance measures, which could potentially be used by sourcing managers to assess the relationship with their Chinese supplier.

The application of particular mechanisms of cultural adaptation at each stage in the relationship building process may help organisations develop, re-evaluate and revise role definition more effectively. An understanding of cultural adaptation in the context of defined cultural behavioural differences may help address the problem between Western buyers and their Chinese suppliers by reducing interfacial cultural tensions, and by improving trust and commitment between members. This research has the potential to benefit many cross-cultural partnerships.

This research also has implication for the selection of expatriates to be sent to Western buyer's IPO in China. Those individuals of Western buyers who appreciate and are willing to adapt to Chinese culture are preferable candidates. According to the key informants of WB-B and WB-D, it takes time to adapt culturally; therefore the current rotating system of expatriate's assignment seems problematic.

The research might inform the selection of Chinese suppliers. The Chinese private owned companies especially those privatized from state-owned companies are more advantageous in terms of their willingness to adapt to Western rules and procedures, which is considered a key to ensuring quality and therefore relationship success.

When the author presented cultural adaptation issues to practitioner members of the Supply Chain Risk Club at Cranfield in 2007, it generated a lot of interest. With the findings of the research, training workshops on cultural adaptation, hybrid culture, selection of Chinese suppliers and structure of IPOs could be designed to train procurement personnel and expatriates to be sent to China.

## **10.6 Research Limitations**

The first limitation of the research is that cross cultural studies require researchers from the cultures being studied to form a collaborative team. It is advantageous to have different interpretation from different cultural perspectives to complement with each other. Easterby-Smith and Malina (1999) argue that the problem for researchers from one culture or context wishing to conduct research on another culture is that the outsiders' past experiences will not have equipped them to make sense of events in the same way that insiders would. No one researcher can be an insider in multiple cultures. The fact that I have been studying and working in the UK for more than six years to some extent helps me understand Western culture. On the other hand, my supervisor and PhD review panel are from Western cultural background and can also to some extent compensate the lack of field investigators from Western cultural background. However, as the only field investigator of this research, I did not have the advantage of discussion with co-investigators, which is a very important element in a reflective process.

Another limitation is embedded in the research design. It would have been best to have carried out a longitudinal study because the unit of analysis is a process that by its nature can take several years to play out. For this reason it was not feasible to implement a longitudinal study within the timeframe of a PhD project. A retrospective study, which asks informants to recall what happened in a relationship's past, was conducted. There are two problems with this method. The primary one is that key informants may not be able to accurately recall the past. In this study I asked informants to give examples to support their claims; however some key informants were not able to provide examples to support their claim that they had reached a certain level of cultural adaptation. For example, when I asked the Account Manager of CS-A their adaptation to the progressive nature of Western relationship building process, he just claimed that they 'understood' this several months after the relationship started without providing an example.

A secondary problem associated with retrospective study is that key informants may try to present a socially desirable image of themselves or their firms (Golden, 1992). For example, the IAAs from Chinese suppliers tend to overestimate their level of cultural adaptation. They think they have adapted completely, but according to the IAAs of Western firms they did not.

A method for improving the validity of retrospective reports is proposed by Miller et al. (1997) recommending that researchers should employ multiple knowledgeable informants per firm to allow the information provided by any one informant to be checked. One informant's retrospective account regarding level of cultural adaptation was corroborated as much as possible by other key informants within each case.

The third limitation is that, due to financial and time constraints, the pilot cases did not form a complete case indicating that interviews with informants from both Western buyers and Chinese suppliers are carried out. Only a small number of informants from the Western firms were interviewed in the pilot cases. Case A assumes part of the role as a pilot case since most of the propositions were developed from it. If time and finance allow, I should have finished at least one complete pilot case before moving on to the next case. Perry's (1998) two-stage case study model consists of an exploratory and a confirmatory stage (figure 3-3). The cases in the exploratory stage serve to explore the field and therefore can be regarded as pilot cases. In this stage, one should finish one case before moving on to the next one in order to allow everything learnt from this case to be carried forward to the next one.

### **10.7 New Areas for Research**

The findings suggest that those individuals working in the IPO of the Western firms adapted culturally but the company as a whole does not adapt. This may indicate that the IPO plays an important role between Western subsidiaries/headquarters and Chinese suppliers. The role of the IPO has been explained by some key informants as a "lubricant and bridge" between Western buyers and Chinese suppliers.

Due to the increasing number of IPOs in China and the strategic importance of purchasing function in the Western firms, there is a need to understand the role of IPOs. However, there is a dearth of literature on this topic. Nassimbeni and Sartor (2006a) propose a list of roles that IPOs play, which does not include the role on how IPOs manage the cross cultural relationships between Western subsidiaries and Chinese suppliers, which is an important role that IPOs play according to the key informants of this research.

Arguably, an IPO has two interfaces to manage: one with Western subsidiaries and the other with Chinese suppliers. Both interfaces could have tensions. A good example shown in the statement made by the Interface Team Leader of WB-D:

*“WB-D thinks we have adapted to Guanxi network completely and we work for CS-D not for WB-D (he laughed). But we were told to be sympathetic to other’s views. Yes, we have adapted. WB-D does not like it. Before we adapted, our normal behaviour wasn’t succeeding.”*

He also described their relationship with CS-D at the early stage:

*“We find it was frustrating before we adapted. Our normal behaviour wasn’t succeeding. I lost my temper several times because I can’t get things done at the early stage of the relationship.”*

It can be seen that there was tension for each of the two interfaces of WB-D’s Interface team. It may be assumed that the role of IPO is not simply an extension of purchasing function of Western firms; rather, it serves different purposes and therefore requires a range of capabilities. What these capabilities are could be a future research question.

When transcribing interviews, I found the IAAs from Western buyer’s IPO talked a lot about the success factors of IPO such as leadership and structure of IPO. This is another direction related to IPOs. The potential question would be “what makes a Western firm’s IPO in China successful”.

The research proposed six-item mutual benefits as partnership performance indicators; however the relationship between the indicators is not clear. A model mapping the relationship of the indicators could be developed and tested with survey data in the future.

With the development of the relationship between a Western buyer and a Chinese supplier, the power position and motivation to form partnership may change for one party or both parties. For example, the Western buyers are motivated by the low cost of sourcing from China and Chinese suppliers are motivated by obtaining advanced technology from Western firms; therefore they are inter-dependent to each other. However, when Chinese suppliers have grasped the technology and start serving other customers with the technology, will the partnership dissolves? It is interesting to understand whether the power dependence theory holds true in a cross cultural context.

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## Appendices

### Appendix 1: Published papers and papers in preparation based on my PhD

#### *Journal papers based on my PhD*

Jia, F. and Rutherford, C. (2010), "Mitigation of supply chain relational risk caused by cultural differences between China and the West: a conceptual model", *International Journal of Logistics Management*, in press

Jia, F. and Rutherford, C. (2008), "Watch your Guanxi", *Supply Chain Standard*. London. February/March.

#### *Conference papers based on my PhD*

Jia, F. and Rutherford, C. (2007), "Is Guanxi a Source of Supply Relational Risk for Western Firms Sourcing in China?", ICOSCM (International Conference on Operation and Supply Chain Management) Conference Proceedings. Xi'an, China. June 26-30

Jia, F. and Rutherford, C. (2007), "Identifying Potential Guanxi Related Sources of Risk for Western Firms Sourcing in China". LRN (Logistics Research Network) annual conference 2007. Hull, U.K. September 5-7

Jia, F. (2008), "Supply Chain Relationship Management Research in a Sino-West Context", Multiple Strands Conference, Cranfield University, England (methodological paper)

Jia, F. (2009), "Cultural Adaptation between Western Buyers and Chinese Suppliers - empirical evidence", LRN (Logistics Research Network) annual conference 2009. Cardiff, U.K. September

#### *Papers in the preparation based on PhD*

An empirical research paper based on the empirical evidence to support a formation of a Hybrid Culture to be submitted to *Supply Chain Management: An International Journal (SCM: AIJ)* in 2010

An empirical paper on the causal relationship between cultural adaptation and mutual benefits to be submitted to *International Journal of Operations and Production Management (IJOPM)* in 2010

## **Appendix 2: Multiple case studies protocol**

### **1. Purpose of case studies**

The purpose of this field research is to answer three research questions:

1. How do Western buyers and their Chinese suppliers adapt to each other to address the problems caused by differences between Guanxi and Western forms of supply relationship management?
2. How do the mutual benefits achieved relate to the cultural adaptation process?
3. What are the contextual factors affecting the cultural adaptation process?

### **2. Research design**

#### *The unit of analysis*

The unit of analysis of the research is identified as the cultural adaptation measured in terms of behavioural change of the dyadic relationship between Western buyers and their Chinese suppliers in relation to the three root differences between Western forms of supply relationship management and Guanxi. This requires the research to collect data from both parties.

#### *Case selection criteria*

Cases are selected from:

- Dyads from manufacturing industry,
- Dyads are in a partnership stage,
- Those that Western buyer has a subsidiary/headquarter in the UK or US, which deals with the Chinese supplier identified, and
- Those that Western firms have a IPO (International Purchasing Office) or equivalent in China
- Those large scale Western manufacturers

#### *Informant selection criteria*

Informants will be chosen from all three types of organizations: Western headquarter/subsidiary, Western firm's IPO or equivalent in China and Chinese suppliers. Informants will be chosen from those who interact with the other party both frequently and infrequently and whose knowledge of cultural adaptation is complementary to each other. Individuals from both managerial and operational levels will be chosen to avoid the elite bias.

#### *Data collection*

In-depth, semi-structured interviews, observation, documentation and survey are the instruments used. Semi-structured interviews are the main instrument because the cultural adaptation process is implicit. The direct observations of informants' responses and interview sites, informal discussions with informants and reflections are documented in the field notes. Documentation is used to provide some background information about the relationship and case companies. A pre-interview questionnaire is designed to collect data on the context of the dyads, assess if the relationship had developed into a partnership/commitment stage and test each informant's knowledge of cultural behavioural

differences. A mutual benefits questionnaire is designed to collect data on the perceived mutual benefits by the key informants. The questionnaires, interview questions and selected quotes are back translated by an expert to assure that the meaning translated from English or Chinese has not been changed.

### 3. Field procedure

Interviews are arranged at either interviewee's work place or a coffee/tea shop. Chinese mandarin is the language used in the interviews with Chinese interviewees employed by the Chinese supplier. Both English and Chinese are used in the interviews with Chinese staff of Western companies. Since many English words and phrases (not necessarily a whole sentence) are used in the workplace by Chinese staff of Western firms' IPO, this mix of English and mandarin will be used wherever appropriate. English is used in the interviews with Westerners employed by the Western buying organizations.

Each interview lasts about one hour. All interviews are audio-taped and notes are taken during and after each interview. When permitted, photographs of the workplace and the interviewees are taken to remind me of the interview. Background of the research will be introduced before or at the beginning of the interview.

The process of the field research is as follows:

Document all interactions with the case companies including emails and phone calls, and keep a diary documenting the course of the fieldwork for each case: the procedure, provisional analysis and interpretations, and learning experiences (reflection about the interview, the process, data analysis and development of theory)

#### Pre-interview

- Send email or call to explain the purpose of the research and requirements for the interviewees and assure confidentiality and anonymity.
- Send off the pre-interview questionnaire to the interviewees and remind them to fill it up and send back to me before the interview.
- Carry out a preliminary investigation of the case company by visiting the company website, and reading any relevant news and articles.
- Plan travel arrangements in advance so as to leave plenty of time to arrive at the interview venue on time.
- Double check all the equipments and documents needed for the interview such as digital recorder and interview questions sheet.

#### Post-interview

- Ask the interviewee to fill out the mutual benefits questionnaire at the end of each interview or ask them to fill it out and send back to me by email.
- Upload the recorded interview to computer and make a backup copy.
- Complete field notes.
- Transcribe recording, translate and do data reduction- complete a write-up.
- Modify interview questions if needed.
- Modify or add propositions, research questions, if needed.

### **Appendix 3: Sample letters to the case companies**

*Sample letter 1:*

February 2008

Dear Wendy,

Many companies are now sourcing products, components, etc from China. If you are one of these companies you might be interested in a research programme that we are conducting in the Centre for Logistics and Supply Chain Management at Cranfield University.

We are exploring the critical issue of how can relationships across cultures be better managed. In particular we are looking at how Western firms manage in an environment where the traditional business relationship is based on the idea of 'Guanxi'.

I have attached a brief description of the project and would like to encourage you, if you have experience of sourcing in China, to take part in our research. This will not be time-consuming - a couple of interviews with the appropriate people - and we will be happy to share the results of the study in return.

If you would like to take part or to find out more please contact my colleague, Dr Christine Rutherford on 01234 751122 or e-mail her at [christine.rutherford@cranfield.ac.uk](mailto:christine.rutherford@cranfield.ac.uk).

Many thanks in advance for your help.

Yours faithfully



***Professor Martin Christopher***

*Sample letter 2:*

To Whom It May Concern:

I am Jeff Jia, PhD student of Canfield School of Management.

This is to ask your assistance on my research and introduce the field research of my PhD project sponsored by Canfield School of Management. This research is potentially of benefit to you by increasing your understanding of the issues studied.

I hope, by means of multiple case studies, to answer the two research questions listed in the statement. Please find the statement of the case study in the attachment.

If you are interested in participating in it or would like to introduce somebody who is interested, please send me email to: [fu.jia@canfield.ac.uk](mailto:fu.jia@canfield.ac.uk).

If you have any questions about the statement, just let me know and I will be very happy to provide some more details.

Best Regards,



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<http://www.cranfield.ac.uk/som>

#### Appendix 4: Pre-interview questionnaire

The access to all four cases was negotiated from the Western buyers that identified Chinese suppliers, so there is no need to ask the Chinese supplier to identify a Western buyer. The Chinese version is slightly different from this English version in terms of the way of raising questions.

Your Organisation:.....

Your Name:.....

Job Title: .....

Contact details:.....

Department:.....

We would be grateful if you could complete this short questionnaire, which will provide us with the background information we need prior to our meeting (interview) to discuss in more detail your relationship with one of your Chinese suppliers (to be identified in this questionnaire). What you are going to tell us in this questionnaire and in the interviews is confidential. Your name and company's name will not be shown in any publications.

Please identify a Chinese supplier with whom your organisation has a strong relationship.

1. The name of the Chinese supplier and its location:.....

(Please select the one, which has business relationship of no less than 3 years)

How often do you visit this supplier/buyer?.....

2. With whom do you deal with within the supplier/buyer organisation?

Job title	Name (if possible)

3. What kind of products do you source from this Chinese supplier (What kind of products do you supply this Western buyer)?.....

A. Product complexity (in terms of variety):

Low	Medium	High
-----	--------	------

B. Product volume:

Low	Medium	High
-----	--------	------

C. Product complexity (in terms of technical specification):

Low	Medium	High
-----	--------	------

5. Approximately what percentage of the Chinese supplier's revenue does your buying represent? (What is the percentage of your revenue represented by the Western buyer's purchase?).....%

6. The following questions will give us an initial indication of the characteristics of the relationship between your organisation and the supplier/buyer identified. Please rate the current strength of the relationship on a scale of 1 to 5 (Where 1 represents weak and 5 represents very strong).

1	For how many years have you done business with the supplier? (start from the first negotiation)						
2	Is there commitment in the relationship?	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			
3	Do you freely share information?	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			
4	Is there sharing of the risks and rewards of the relationship?	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			
5	Is there a high level of interdependence	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			
6	Are your goals compatible?	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			
7	Are you striving for mutual benefits?	Yes <span style="float: right;">No</span> <table border="1" style="width: 100%; text-align: center;"> <tr> <td>5</td> <td>4</td> <td>3</td> <td>2</td> <td>1</td> </tr> </table>	5	4	3	2	1
5	4	3	2	1			

7. The following questions are designed to give us a first indication of your understanding (gained through your experience) of some of the differences between Western and Chinese cultures. Guanxi is a special type of relationship that bonds the exchange partners through reciprocal exchange of favours and mutual obligations.

Please read the following statements and then indicate the degree to which you agree or disagree.

**A.** Chinese tend to place group goals and collective action ahead of self- interest, and gain satisfaction and feelings of accomplishment from group outcomes; while Westerners generally place self interest ahead of group goals.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**B.** China is typified by the “government of people” and Guanxi network is paramount, whereas the West is typified by the “government of law”. There are multiple institutions governing Western firms such as laws, regulations and so on.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**C.** Guanxi network is featured by harmony within hierarchy. The major characteristic of Chinese culture is the maintenance of internal harmony, which is most likely to be achieved by compromising individual interests and choosing social conformity. Confucian principle favours organizational hierarchy and centralized decision making for the benefits of social stability and harmony.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**D.** Relationship building in the West is a dynamic procedural process from initial contact through to commitment/dissolution and is based on the interplay of competition and cooperation. In China, the process is also dynamic, but not necessarily a step by step process and is featured by *face* (social capital) and *renqing* (favour).

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**E.** In the Guanxi building process, people intentionally or unintentionally follows the Yin-yang principles whereas Western relationship building is based on economic principles. Yin-yang principles mean that when relationships conflict, only two movements are available to either partner: to push or pull the door. The Chinese would take a strategy called yielding i.e. the other party tries to attack or ‘push’, then Chinese would defend or ‘pull’ and try not to confront the other party, and vice versa.

**Strongly agree**

**Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**F.** Guanxi is essentially personal and informal. Networking in the West, by contrast, is virtually always associated with commercial-based corporate-to-corporate relations and is essentially formal.

**Strongly agree**

**Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

**G.** Comparatively Chinese have a long term orientation and Westerners have a short term orientation in business relationships.

**Strongly agree**

**Strongly disagree**

5	4	3	2	1
---	---	---	---	---

Don't know

Once you finish, would you please return this form to Jeff Jia, PhD student of Cranfield School of Management through email attachment? He will be the person doing interviews with you.

His email address is: [fu.jia@cranfield.ac.uk](mailto:fu.jia@cranfield.ac.uk)

## Appendix 5: Interview questions for major field research in 2008

Organisation/department:.....

Name of interviewee and title:.....

Date & Time of Interview:.....

Duration of Interview:.....Interview No.....

Overall Impression of Interviewer on Interviewee:

Enthusiastic	Interested	Uninterested

1. Hello.....

Have you received the preliminary questionnaire?

Yes	No	Don't Know

Completed it and returned it?

Yes	No	Don't Know

If not, here is one. (Ask the interviewee to fill it out and return it to me at the scene.)

2. Debrief

Thank you for giving up this time for me. This interview will provide me with some valuable input into my research, which is looking at cultural adaptation between Western buying and Chinese selling firms in China. Your experiences will eventually benefit firms in the future who decide to source from China. Of course you are totally anonymous. Everything you say that I write down is confidential. First of all I'd like to ask some general questions.

Would you mind if I taped this conversation? It would save time, and allow us to record your views more accurately. The tapes will be treated in confidence.

3. Demographic questions

Could you tell me a something about yourself in this company?

*Prompt:* How long have you been in this role?

What did you do before this role in the company or in other company?

Have you been to China/UK/US for visiting suppliers/buyers?

How many times? Where have you been? What did you do there?

Could you introduce your IPO and operations in China?

4. Cultural adaptation

Generally how has the relationship changed over time?

A. Let's start from the beginning of the relationship, can you tell me about the first steps in building the relationship? When was that?

How do you describe your relationship with the Chinese supplier/Western buyer at that time?

*Prompt: **Exploration***: search and trial phase, brief or extended period of testing and evaluation, minimal investment and inter-dependence.

**B.** Once the relationship was established, how has the relationship developed?

How do you describe your relationship with the Chinese supplier/Western buyer at that time?

*Prompt: **Expansion*** refers to the continuous increase in benefits obtained by exchange partners and to their increasing interdependence. It is a consequence of each party's satisfaction with the other/s role performance and its associated rewards.  
How long did this take?

**C.** Can you describe the relationship recently?

How do you describe your relationship with the Chinese supplier/Western buyer now?  
*Prompt: **Commitment*** refers to an implicit or explicit pledge/commitment of relational continuity between exchange partners. 3 measures: high level of inputs to the association; some durability of the association over time; and consistency of the input. A key distinction of commitment phase is the parties purposefully engage resources to maintain the relationship.

**D.** Go to the pre-interview questionnaire and ask:

Can you give me an example of problem caused by each item of the culturally behavioural differences? How did you adapt to each other in this aspect?  
*Prompt*: Have you adapted? How? When did you adapt?

## 5. Hybrid cultural interface

Do you think that the whole company understand the cultural differences between China and the West and adapt to Chinese supplier/Western buyer? Yes/No

Who are the individuals adapted?

Have you seen a composite culture formed between you and the other party?

What is it?

*Prompt*: what have you learned from the Chinese supplier/Western buyer or adapted?

## 6. Mutual benefits

What benefits to the relationship have been gained from this partnership because of adapting to the Chinese supplier/Western buyer culturally comparing to the beginning of the relationship? OR

Have you seen the benefits grown/increase over the life of the relationship and how?

## Appendix 6: List of interviews for the main field research

Dates and Location of interviews	Interviewees			Notes
	Reference	Role	Organization	
July 21, 2008 IPO, Shanghai	WB-A#01	Sourcing Manager	WB-A's IPO	Observe the IPO
July 22, 2007 A restaurant in Shanghai	WB-A#02	Senior Buyer	WB-A's IPO	Two formal interviews and a couple of informal gatherings with him plus MSN chatting
June 15, 2008 A Starbucks shop in Shanghai				
February 18, 2009 Cranfield	WB-A#03	Site Buyer	WB-A's US Subsidiary	Telephone interview
June 26, 2008 CS-A, Suzhou	CS-A#01	General Manager	CS-A TM	Arrived at CS-A the day before, had supper & informal discussion with them. Was shown around CS-A.
June 26, 2008 CS-A, Suzhou	CS-A#02	Account Manager/ Vice GM	CS-A TM	
June 26, 2008 CS-A, Suzhou	CS-A#03	Logistics Manager	CS-A MM	

Case A (TM: Top Management; MM: Middle Management)

Dates and Location of interviews	Interviewees			Notes
	Reference	Role	Organization	
June 26, 2007 IPO, Shanghai	WB-B#01	Purchasing Director	WB-B's IPO	Pilot study interview
June 17, 2008 IPO, Shanghai	WB-B#02	Sourcing Manager	WB-B's IPO	
June 17, 2008 IPO, Shanghai	WB-B#03	Senior Buyer	WB-B's IPO	3 times informal gatherings plus MSN chat
June 15, 2007 UK Subsidiary	WB-B#04	Supplier Development Manager	WB-B's UK subsidiary	Pilot study interview
June 15, 2007 UK Subsidiary	WB-B#05	Material Planner	WB-B's UK subsidiary	Pilot study interview
July 15, 2008 CS-B, Zhejiang	CS-B#01	President	CS-B TM	Accompanied the Senior Buyer to visit CS-B. Was well treated by CS-B.
July 15, 2008 CS-B, Zhejiang	CS-B#02	Chief Engineer	CS-B TM	
July 16, 2008 CS-B, Zhejiang	CS-B#03	Chief Quality Engineer	CS-B TM	
July 16, 2008 CS-B, Zhejiang	CS-B#04	Project Team Leader	CS-B TM	
July 16, 2008 CS-B, Zhejiang	CS-B#05	Project Engineer	CS-B OP	

Case B (TM: Top Management; MM: Middle Management; OP: Operational Personnel)

Dates and Location of interviews	Interviewees			Notes
	Reference	Role	Organization	
May 7, 2008 WB-C HQ, UK	WB-C#01	Group Sourcing Director	WB-C's HQ	She identified CS-C.
May 7, 2008 WB-C HQ, UK	WB-C#02	Sourcing Engineer	WB-C's HQ	
June 16, 2008 CST, Shanghai	WB-C#03	Sourcing Director	WB-C's China Sourcing Team	This is the new sourcing director.
July 23, 2007 CST, Shanghai June 16, 2008 CST, Shanghai	WB-C#04	Senior Buyer	WB-C's China Sourcing Team	Interview her twice, The 1 <sup>st</sup> was pilot interview.
June 16, 2008 CST, Shanghai	WB-C#05	Supply Quality Engineer	WB-C's China Sourcing Team	
June 23, 2008 CS-C, S. China	CS-C#01	Marketing Director	CS-C MM	Plus MSN chatting and phone call several times
June 23, 2008 CS-C, S. China	CS-C#02	Marketing Executive	CS-C OP	
June 23, 2008 CS-C, S. China	CS-C#03	Logistics Engineer	CS-C OP	Plus MSN chatting once
June 23, 2008 CS-C, S. China	CS-C#04	Quality Engineer	CS-C OP	

Case C (MM: Middle Management; OP: Operational Personnel)

Dates and Location of interviews	Interviewees			Notes
	Reference	Role	Organization	
May 28, 2008 UK Subsidiary	WB-D#01	Programme Manager	WB-D's UK subsidiary	Responsible for current project A overall.
May 28, 2008 UK Subsidiary	WB-D#02	Sourcing Manager	WB-D's UK subsidiary	Been to China many times.
May 15, 2008 UK Subsidiary	WB-D#03	Logistics Head	WB-D's UK subsidiary	Been to China several times
May 28, 2008 UK Subsidiary	WB-D#04	Quality Manager (Process)	WB-D's UK subsidiary	Never been to China
July 8, 2008 CS-D, North China	WB-D#05	Interface Team Leader	WB-D's Interface Team	Stayed in CS-D from the beginning.
May 15, 2008 UK Subsidiary	WB-D#06	Lead Buyer	WB-D's Interface Team	Mostly stayed in CS-D
July 8, 2008 CS-D, North China	WB-D#07	Quality Manager (Product)	WB-D's Interface Team	Mostly stayed in CS-D
July 8, 2008 CS-D, North China	WB-D#08	Quality Inspector	WB-D's Interface Team	Stayed in CS-D for 1.5 years.
July 8, 2008 CS-D, North China	CS-D#01	Project Director	CS-D MM	An equivalent of Programme Manager of WB-D.
July 7, 2008 CS-D, North China	CS-D#02	Procurement Director	CS-D MM	The contact for CS-D for me. We had informal talk.
July 8, 2008 CS-D, North China	CS-D#03	Quality Director	CS-D MM	

Case D (MM: Middle Management)

## **Appendix 7: A sample of the field notes**

### **Field Notes:**

Site/Company: WB-C Headquarter Date/time: 7 May, 08. 11:00-1200pm; 1210-1310pm

Attendants/Title: Global Sourcing Director, Sourcing Engineer

*How to gain access?*

Through supply chain risk forum. I emailed her and set the date for interview on May 7<sup>th</sup>.

*When was the appointment made?*

April 28, 08 by email

*Travel arrangements?*

By car. Took me about 1 hour to arrive.

*Reflective notes:*

*Mistakes:* Did not get much of an answer on mutual benefits from the Global Sourcing Director. Did not confirm with her about the date/time to interview. She was not so happy at the beginning. I did not make it clear that I want the people to be interviewed to talk about the same Chinese supplier however this was not a problem for this case. With the exception of the Global Sourcing Director, no one else is involved heavily in this particular relationship in the UK headquarter.

At the beginning of the interview, I jumped to the cultural adaptation questions too quickly and did not relate to three dimensions of cultural behavioural differences. This was remedied by going through the cultural behavioural differences and asking her to give an example for each cultural behavioural difference.

Did not get sufficient information on mutual benefits. Need to ask her this part of questions again. Did not use the prompt for the three stages.

*Successes:* I went through the items of cultural behavioural differences and asked the Global Sourcing Director to give examples to illustrate each item, how did they handle it, who adapted in terms of each difference, and when did the adaptation happen.

*Observations of the setting and the respondent:*

It is a global company. I have seen some Chinese staff from WB-C's China office came for training. The headquarter has a big staff canteen and big office. There are a lot of staffs working there. I felt a welcome and friendly atmosphere. The Sourcing Engineer is a very friendly person, who served in royal air force and worked at Cranfield before. He is the

kind of engineering guy, who knows a lot of mechanics. Under the Global Sourcing Director, there are two quality people, two commercial people. It has the similar structure in its Shanghai China Sourcing Team office. Under the Sourcing Director of the China Sourcing Team, there are two quality people and two quality people.

*My overall feeling about the interview:*

What does the relationship with informants feel like?

The Global Sourcing Director is very keen to participate in my research since she has been aware that this project is very relevant to what she has been doing. (It is what her job is about really.) The Sourcing Engineer is an engineer type of person, who does not quite understand the nuance of the differences but he tried very hard to answer my interview questions. However the pre-interview questionnaire he filled out and the interview with him showed that he did not quite understand most of the cultural behavioural differences between China and the west.

*Second thoughts on the meaning of what a key informant was “really” saying during an exchange that seems somewhat important.*

The Global Sourcing Director talked about the interface, which she defines as a group of people from both parties working together. According to her, it is this small group people straddling two organizations who adapt to each other.

It seems that there is at least one individual in a Western firm who could answer my research questions well and other people in that organization could provide support or triangulate what the key informant (normally sourcing director) says.

## Appendix 8: Mutual benefits questionnaire

We would be grateful if you could complete this short questionnaire. Would you please rate below statements regarding the mutual benefits gained due to cultural adaptation comparing to the beginning of the relationship? Please also indicate when did you perceive the particular mutual benefit (exploration, expansion or commitment stage of the relationship)?

**Exploration stage:** search and trial phase, brief or extended period of testing and evaluation, minimal investment and inter-dependence.

**Expansion stage:** the continuous increase in benefits obtained by exchange partners and to their increasing interdependence. It is a consequence of each party's satisfaction with the other/s role performance and its associated rewards.

**Commitment stage:** refers to an implicit or explicit pledge/commitment of relational continuity between exchange partners. There are 3 measures: high level of inputs to the association; some durability of the association over time; and consistency of the input. A key distinction of commitment phase is the parties purposefully engage resources to maintain the relationship.

*Cost reduction benefits:*

Exploration	Expansion	Commitment
-------------	-----------	------------

- 1 This relationship has favourably reduced our end product manufacturing costs.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

- 2 We have efficiently coordinated activities between the two parties in this relationship.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

- 3 In this relationship, we have been able to realize cost savings due to streamlined practices.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

*Relationship effectiveness:*

Exploration	Expansion	Commitment
-------------	-----------	------------

- 1 Both parties carry out their responsibilities and commitment.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

2 The relationship with this supplier/buyer is productive.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

3 The time and effort spent in developing & maintaining the relationship is rewarding to both.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

4 We are satisfied with the relationship.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

5 We have been able to build upon the expertise of this supplier to increase the degree of satisfaction among our customers.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

*Flexible adaptation*

Exploration	Expansion	Commitment
-------------	-----------	------------

1 This relationship is characterized by flexibility in response to request for changes.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

2 When some unexpected situation arises, we work together with this supplier/buyer to make necessary changes to our relationship.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

3 Both sides adjust the ongoing relationship to cope with changes in the business environment.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

4 In this supplier relationship, we are willing to change contractual terms in the face of problems or special circumstances.

**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

*Collaboration:*

Exploration	Expansion	Commitment
-------------	-----------	------------

1 We are achieving our long term goals together.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

2 In this supplier relationship, we share ideas, information and/or resources.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

3 We work together with this supplier/buyer as a team.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

4 People from both companies work together informally.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

*Trust:*

Exploration	Expansion	Commitment
-------------	-----------	------------

1 In this relationship, we keep promises we make to each other.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

2 Each party believes the information provided by the other.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

3 Both parties are genuinely concerned that the other's business succeeds.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

4 We both find each other trustworthy.  
**Strongly agree** **Strongly disagree**

5	4	3	2	1
---	---	---	---	---

*Guanxi quality:*

Exploration	Expansion	Commitment
-------------	-----------	------------

Like family member	familiar	stranger
--------------------	----------	----------

Once you finish, would you please send back this questionnaire to Jeff Jia, PhD student of Cranfield School of Management? His Email address is: [fu.jia@cranfield.ac.uk](mailto:fu.jia@cranfield.ac.uk)

## Appendix 9: NVivo Coding for Cases A & B

This is a screen from NVivo 7 showing the tree notes for Cases A & B, which are tabulated in the next page. The structure of IPO and ownership of Chinese suppliers did not emerge at that stage of data analysis, therefore are not shown in the screen.

The screenshot displays the NVivo 7 interface with the 'Tree Nodes' view selected. The left sidebar shows a tree structure of nodes, and the main window displays a table of these nodes with columns for Name, Sources, References, Created, and Modified.

Name	Sources	References	Created	Modified
FDvSI	0	0	2007-11-25 16:05	2008-10-14 15:00
GNvMI	1	1	2007-11-29 11:40	2008-12-18 10:42
Commitment	0	0	2008-11-5 16:23	2008-11-5 16:23
Expansion	0	0	2008-11-5 16:23	2008-11-5 16:23
GNvMI-Expansion-BuyerLEA	1	1	2007-12-20 11:01	2008-11-15 15:57
GNvMI-Expansion-SupplierADJ	2	3	2007-12-20 11:01	2008-12-18 10:42
Exploration	0	0	2008-11-5 16:23	2008-11-5 16:23
GRvWR	0	0	2007-11-25 16:07	2007-12-20 16:01
HbridCulturalInterface	5	9	2008-1-18 11:30	2008-12-8 10:54
MB	0	0	2008-1-18 11:18	2008-1-18 11:18
RelationEvolvingProcess	0	0	2008-11-8 11:23	2008-11-8 11:25
RiskPerception	4	8	2007-11-25 16:03	2008-11-8 11:07

Process		Code	Description
Family Orientation vs. self Interest		FOvSI-BuyerUND FOvSI-BuyerADJ FOvSI-SupplierUND FOvSI-SupplierADJ	Western buyer IAAs understand family orientation. Western buyer IAAs adjust to family orientation. Chinese suppliers IAAs understand self interest. Chinese suppliers IAAs adjust to self interest.
Guanxi network vs. multiple institutions		GNvMI-BuyerUND GNvMI-BuyerADJ GNvMI-BuyerLEA GNvMI-SupplierUND GNvMI-SupplierADJ	Western buyers IAAs understand Guanxi network. Western buyers IAAs adjust to Guanxi network. Western buyers IAAs learn Guanxi network. Chinese suppliers IAAs understand Western rules and procedures. Chinese suppliers IAAs adjust to Western rules and procedures.
Guanxi relationship building vs. Western relationship building process	Progressive v Flexible	GRvWR-PvF-BuyerUND GRvWR-PvF-BuyerADJ GRvWR-PvF--SupplierUND GRvWR-PvF--SupplierADJ	Western buyers IAAs understand face and renqing of GR. Western buyers IAAs adjust to face and renqing of GR. Chinese suppliers IAAs understand step by step procedures of WR. Chinese suppliers IAAs adjust to step by step procedures of WR.
	Yin-yang principle vs. dualistic thinking	GRvWR-YvD-BuyerADJ GRvWR-YvD-BuyerLEA GRvWR-YvD-SupplierUND	Western buyers IAAs adjust to Yin-yang principle. Western buyers IAAs learn Yin-yang principle. Chinese suppliers IAAs understand dualistic thinking.
	Personal informal vs. formal corporate to corporate	GRvWR-PvC-BuyerADJ GRvWR-PvC-BuyerLEA GRvWR-PvC-SupplierUND	Western buyers IAAs adjust to personal & informal nature of GR. Western buyers IAAs learn personal & informal nature of GR. Chinese suppliers IAAs understand formal corporate to corporate nature of WR.
	Long term vs. short term orientation	GRvWR-LvS-BuyerADJ GRvWR-LvS-BuyerLEA GRvWR-LvS-SupplierNA	Western buyers IAAs learn long term orientation of GR. Western buyers IAAs adjust to long term orientation of GR. Chinese suppliers IAAs do not adapt to short term orientation of WR.
Hybrid Culture		HC IAA	A combination of Western rules and procedures and Guanxi. Those individuals who work closely with individuals of the other party at the interface between Western buyers and their Chinese suppliers.
Mutual Benefits		CRB RE FA Collaboration Trust GQ	<i>Cost Reduction Benefits</i> : the degree to which the business-to-business relationship has enabled the parties to generate benefit as a result of reduced operational costs <i>Relationship Effectiveness</i> : the degree to which partners find the relationship to be productive and worthwhile. <i>Flexible Adaptation</i> : the extent to which partners adapt their behaviours to environmental changes for the benefits of both parties <i>Collaboration</i> : the degree to which partners are able to collaborate and work together in a joint fashion toward their respective goals <i>Trust</i> : the perception of confidence in the exchange partner's reliability and integrity <i>Guanxi Quality</i> : jia-ren (kinship), shou-ren (familiar) and sheng-ren (stranger) Guanxi.
Contextual variables		CSOwnership IPOSstructure	Ownership of Chinese suppliers: It could be state owned or private owned companies. whether or not IPOs have a trans-cultural.

## Appendix 10: Kruskal-Wallis equality-of-populations rank test results

### 1. Test the difference of scores on Cost Reduction Benefits among the four cases

**Test Statistics<sup>a,b</sup>**

	Rank_CRB
Chi-Square	7.770
Df	3
Asymp. Sig.	.051

a. Kruskal Wallis Test

b. Grouping Variable: Group  
four

The grouping variables are the cases. Since the P-value is 0.051, there is a significant difference between the four cases at 0.05 level. Since average scores for Cases A & B individually are higher than Cases C & D individually for this item, the average score for Cases A & B as a group is higher than that of Cases C & D as a group. Therefore it is concluded that the average score of Cases A & B as a group is significantly higher than that of Cases C & D as a group in terms of this item.

### 2. Test the difference of scores on Relationship Effectiveness among the four cases

**Test Statistics<sup>a,b</sup>**

	Rank_RE
Chi-Square	10.009
df	3
Asymp. Sig.	.018

a. Kruskal Wallis Test

b. Grouping Variable: Group  
four

Since the P-value is 0.018, there is a significant difference between the four cases at 0.05 level. Since average scores for Cases A & B individually are higher than Cases C & D individually for this item, the average score for Cases A & B as a group is higher than that of Cases C & D as a group. Therefore it is concluded that the average score of Cases A & B as a group is significantly higher than that of Cases C & D as a group in terms of this item.

### 3. Test the difference of scores on Flexible Adaptation among the four cases

**Test Statistics<sup>a,b</sup>**

	Rank_FA
Chi-Square	5.280
df	3
Asymp. Sig.	.152

- a. Kruskal Wallis Test
- b. Grouping Variable: Group four

Since the P value is 0.152, the difference of the four cases is not significant; therefore Additional K-W test was run between Cases A & B as a group and Cases C & D as a group.

**Test Statistics<sup>a,b</sup>**

	Rank_FA
Chi-Square	5.148
df	1
Asymp. Sig.	.023

- a. Kruskal Wallis Test
- b. Grouping Variable: Group two

Since P value is 0.023, the difference between the two groups is significant at 0.05 level. Therefore it is concluded that the average score of Cases A & B as a group is significantly higher that of Cases C & D as a group in terms of this item.

### 4. Test the difference of scores on Collaboration among the four cases

**Test Statistics<sup>a,b</sup>**

	Rank_CO
Chi-Square	4.458
df	3
Asymp. Sig.	.216

- a. Kruskal Wallis Test
- b. Grouping Variable: Group four

The P value is 0.216; therefore the difference among the four cases is not significant.

Again additional K-W test is run between Cases A & D as a group and Cases C & D as a group.

**Test Statistics<sup>a,b</sup>**

	Rank_CO
Chi-Square	3.741
df	1
Asymp. Sig.	.053

a. Kruskal Wallis Test

b. Grouping Variable: Group two

Since the P value is 0.053, the difference between the two groups is significant at 0.05 level. Therefore it is concluded that the average score of Cases A & B as a group is significantly higher that of Cases C & D as a group in terms of this item.

#### 5. Test the difference of scores on Trust among the four cases

**Test Statistics<sup>a,b</sup>**

	Rank_TR
Chi-Square	9.925
df	3
Asymp. Sig.	.019

a. Kruskal Wallis Test

b. Grouping Variable: Group four

Since the P value is 0.019, the difference of the four cases is significant at 0.05 level. Since average scores for Cases A & B individually are higher than those of Cases C & D individually for this item, the average score for Cases A & B as a group is higher than that of Cases C & D as a group. Therefore it is concluded that the average score of Cases A & B as a group is significantly higher that of Cases C & D as a group in terms of this item.